

Financial Management Tower Summary

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Financial Management Tower Summary

The Commonwealth's Enterprise Business Architecture Model defines the Financial Management function as "the use of financial information to measure, operate, and predict the effectiveness and efficiency of an entity's activities in relation to its objectives. The ability to obtain and use such information is usually characterized by having in place policies, practices, standards, and a system of controls that capture and report activity in a consistent manner."

As evidenced by the survey conducted in association with preparing the EBA and the survey associated with this Due Diligence effort, the Financial Management function and the majority of its included processes are an important part of the activities of *all* Commonwealth agencies. Every agency performs financial management activities as part of the overall process of managing and operating an over \$23 billion entity. Further, a significant portion of Commonwealth resources are dedicated to this activity. In our survey of 46 executive branch agencies, approximately 5% of agency staff, performs financial management activities. Exhibit 1 outlines how these staff are allocated to the various financial management processes, based upon the responses received from our survey. In addition, several agencies make significant use of contractors to perform some aspects of financial management. Contractor costs make up approximately 16% of the total cost of the financial management function, as reported by agencies participating in our survey. Exhibit 2 describes the relationship between employees and contractors supporting financial management functions.

Exhibit 1 Financial Management Resources

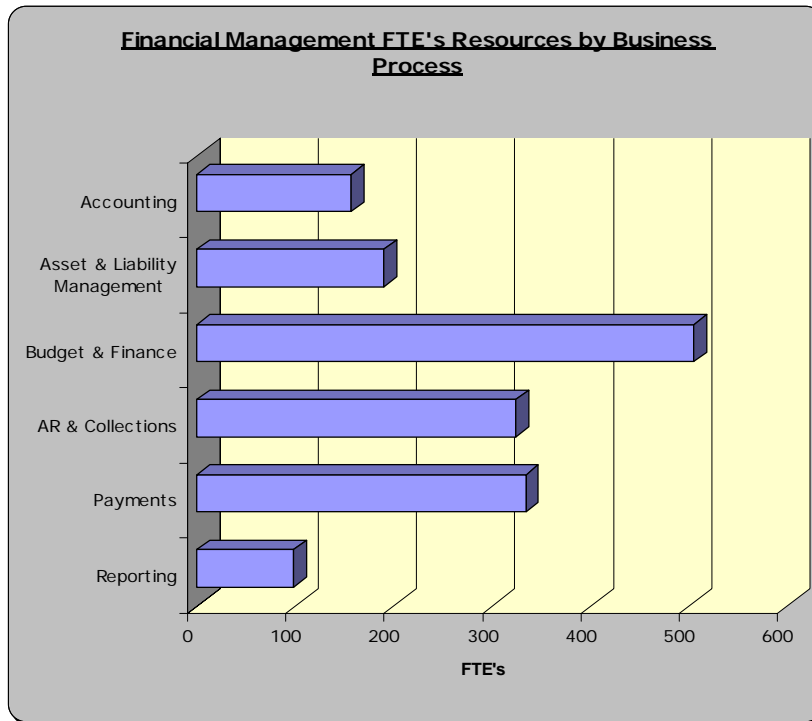
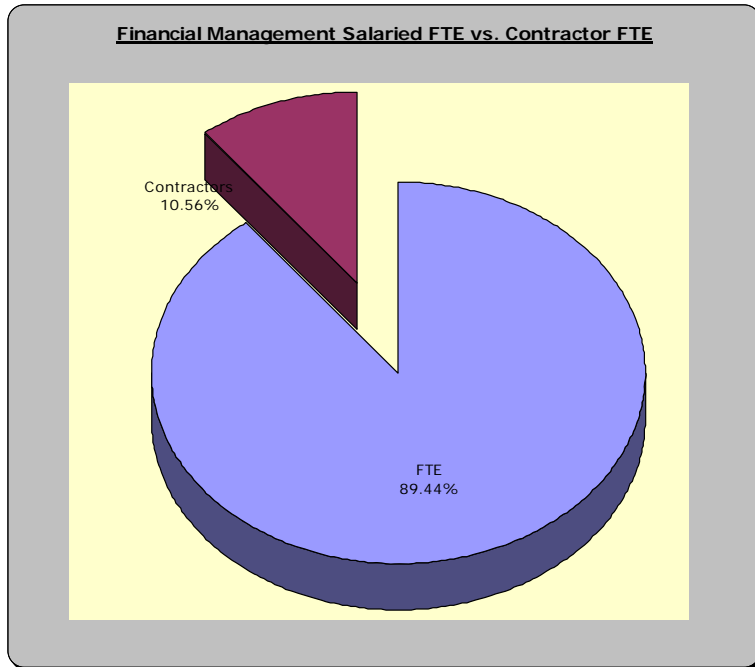


Exhibit 2 Utilization of Contractors in Financial Management

The agencies participating in our survey report spending approximately \$120 million on their financial management processes per year. The distribution of costs for the major subprocesses within Financial Management is summarized in Exhibit 3. Exhibit 4 provides an integrated view of FTEs and related costs for all Financial Management processes based upon the data provided to us in survey responses.

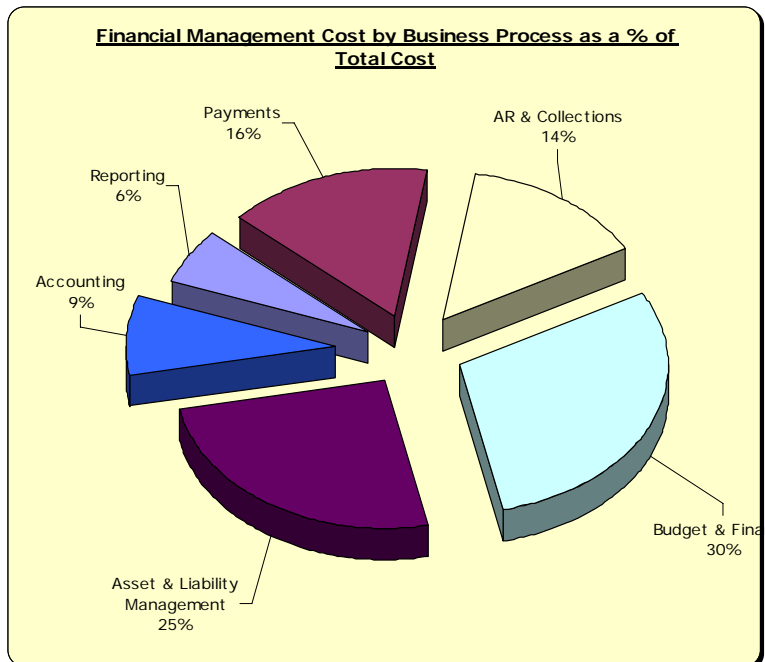
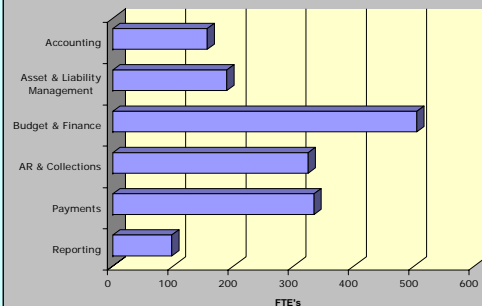
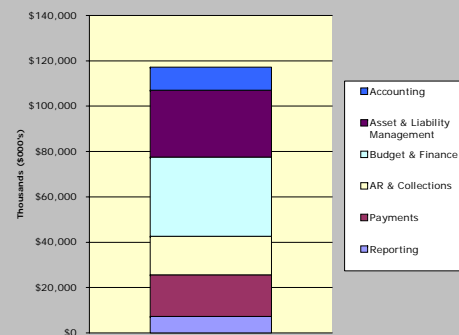
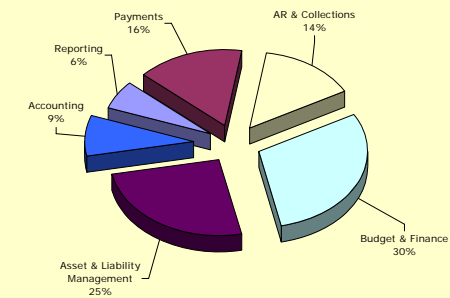
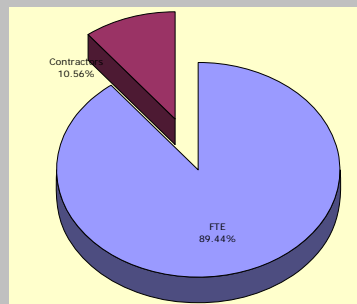
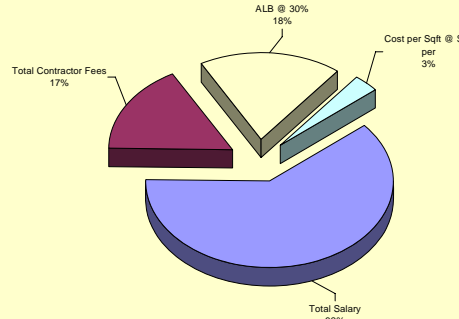
Exhibit 3 Total Cost of Financial Management

Exhibit 4 Integrated Financials for Financial Management**Allocation of Financial Management FTE's by Function**

Function	FTE's				Contractor			Benefits		Facility			Total Cost
	FTE	Total Salary	Cost %	Average Salary	Contractors	Total Contractor Fees	Cost %	ALB @ 30%	Cost%	SqFT Allocation @ 125 per FTE	Cost per Sqft @ \$20 per	Cost%	
Reporting	97.55	\$5,288,653	7%	\$55,018	1.60	\$166,400	0.8%	\$1,586,596	7.4%	12,194	\$243,875	6.1%	\$7,285,523
Payments	334.00	\$13,063,087	18%	\$39,936	4.30	\$447,200	2.3%	\$3,918,926	18.2%	41,750	\$835,000	20.8%	\$18,264,213
AR & Collections	324.10	\$12,324,719	17%	\$38,291	1.30	\$135,200	0.7%	\$3,697,416	17.2%	40,513	\$810,250	20.2%	\$16,967,585
Budget & Finance	504.60	\$25,679,414	36%	\$51,205	3.00	\$312,000	1.6%	\$7,703,824	35.8%	63,075	\$1,261,500	31.4%	\$34,956,738
Asset & Liability Management	189.20	\$8,084,083	11%	\$72,473	178.50	\$18,564,000	94.1%	\$2,425,225	11.3%	23,650	\$472,998	11.8%	\$29,546,305
Accounting	156.50	\$7,364,096	10%	\$47,416	1.00	\$104,000	0.5%	\$2,209,229	10.3%	19,563	\$391,250	9.7%	\$10,068,574
Total	1,605.95	\$71,804,051	100%	\$44,711	189.70	\$19,728,800	100%	\$21,541,215	100%	200,744	\$4,014,873	100%	\$117,088,939

Financial Management FTE's Resources by Business Process**Financial Management Total Cost by Business Process****Financial Management Cost by Business Process as a % of Total Cost****Financial Management Salaried FTE vs. Contractor FTE****Financial Management Cost by Category as a % of Total Cost**

The Financial Management function in the Commonwealth has both centralized and decentralized components. The centralized, and hence generally common, activities are those mandated by legislation. These include recording appropriations, controlling payments against these appropriations on a cash basis, posting cash receipts, and reporting performance against the appropriations and as part of the annual CAFR. However, the majority of financial management processes tend to be decentralized, and individual agencies develop procedures and systems to support these processes and activities. As a result, there is not a great deal of commonality in how these activities are performed or supported—even if the underlying business process is common across agencies.

Of the nearly 100 financial management-focused systems identified in the survey, the majority are operated and maintained to support a single agency. These agency systems range from multi-million dollar commercially supported applications to single user Microsoft Access programs. They run on mainframe computers, servers, and individual PC's. They use old programming languages and leading edge technologies. Some are Web-enabled; others use batch processing. Some provide for integration of several financial functions in an agency. Most provide a single function. In general, the agencies that operate these systems implemented them to support an important financial management function that was not available to them in any other expedient way.

The remainder of this section presents the key findings of the survey in each of the major activities of Financial Management identified in the EBA:

- Accounting
- Asset and Liability Management
- Budget and Finance
- Collections and Receivables
- Payments
- Reporting and Information

Accounting (438.10)

Accounting entails accounting for assets, liabilities, fund balances, revenues, and expenses associated with the maintenance of funds and expenditure of state appropriations (Salaries and Expenses, Operations and Maintenance, Procurement, Working Capital, Trust Funds, etc.), in accordance with applicable state standards.

The Accounting function has both centralized, relatively common processes and agency specific processes. Appropriation control is performed centrally, as is generation of payments. Other accounting functions are primarily agency level—including the methods used for initial transaction generation and processing. From an enterprise architecture perspective, Accounting is supported by CARS as the statewide central system and managed by DOA. Because CARS does not provide the full range agency-required functionality or even all the capabilities that DOA requires, nearly 100 separate systems are operated at the agency level. These range from numerous PC/spreadsheet type applications to fully integrated complex integrated systems.

As-Is Environment: Strengths

- Each system, central and agency-specific, has been tailored to meet its specific objective:
 - CARS effectively handles cash basis controls and reporting mandated by legislation
 - Agency systems address agency requirements and are capable of supporting Statewide requirements
 - CARS is available to meet the accounting requirements of a number of agencies that do not have complex requirements
- The interfaces between agency and central systems are well-established and generally work smoothly. The majority of these interfaces is fully automated and has proven relatively easy to maintain.
- Commonwealth staff is familiar with the processes. This includes both basic transaction processing, and accumulating and aggregating data needed to produce highly regarded financial statements.
- Many agencies cite Reportline (the reporting tool used to distribute reports from CARS) as an additional strength of the central system.

As-Is Environment: Weaknesses

- The extremely high level of decentralization results in high operating costs, duplication of systems and processes, inexact standards, and the existence of internal control risks. This situation is exacerbated by difficulties in attracting and retaining personnel with requisite levels of accounting expertise.
- Complexity and cost of operating and interfacing a large number of systems. The Commonwealth operates over 100 accounting systems. Each requires some level of technical support and an understanding of other related systems and data.
- Lack of consistency and standards across agencies and processes. In order to perform basic daily accounting operations, agencies must use CARS coding conventions and interface a

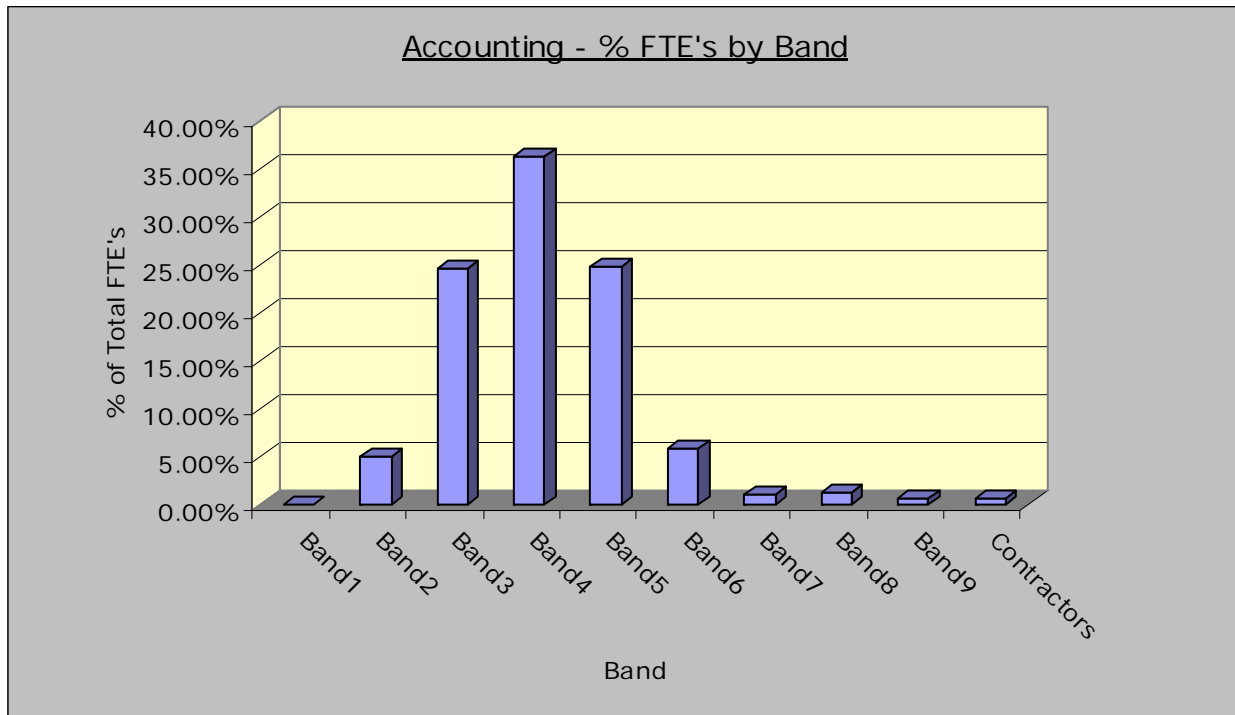
subset of their transactions. The remaining accounting functions and processes are defined by the agency.

- Many sub-processes remain manual in a number of agencies; producing the CAFR is an especially labor intensive process.
- Much of the accounting processes that underlie the Commonwealth's financial reports are being handled at the agency level – using agency defined processes and controls. Recent staff reductions have resulted in a significantly reduced level of audit and central oversight of these processes and methods, increasing the potential exposure to internal control risk.
- Old, and/or in cases, unsupported technology exists in the underlying support systems.
- Producing many key management reports requires bringing together data from multiple sources. Much of this data is not stored in real-time systems or accessible by flexible tools. Thus, at times, management decisions are made using less than the most current data.
- There is a lack of flexibility in terms of statewide reporting along different dimensions. The only common account classification structure across the State is the basic CARS codes. There is no easy way for Executive management to aggregate data in any other ways.
- There is a lack of an accrual accounting-based foundation. While the trend in government accounting is toward full accrual accounting, the Commonwealth's primary central systems are cash basis. This impacts CAFR, and also the daily operations of a number of agencies.
- Generic requirements and processes are replicated across multiple agencies. The high degree of decentralization has resulted in duplication of what could be common processes and systems across agencies. Leading examples are Cost Allocation, Job Cost Accounting, Encumbrance Accounting, and certain components of Grant and Project Accounting.
- Functional and technical integration is lacking, and there are associated redundant data entry and extensive reconciliation processes.

As-Is Environment: Resources Required

Human Resources

The majority of state employees engaged in the accounting function fall within the lower salary bands. The quantity of FTEs dedicated by each agency to the accounting function, as reported on the PPEA Enterprise Applications survey, is highly variable. This variability may reflect the organizational structure (centralized vs. decentralized) and the agency's specific mission and funding sources. However, in certain cases it also reflects how an agency subdivided staff for the survey across the various components of financial management, or whether they elected to report staff at all.

Exhibit 5 Accounting Human Resources

In the survey, WWRC had the largest number of personnel performing accounting functions, followed by TAX. This result possibly reflects how the agencies classified personnel for purposes of the survey rather than the actual situation. The survey also revealed that a very small percentage of contractors are engaged in the accounting process.

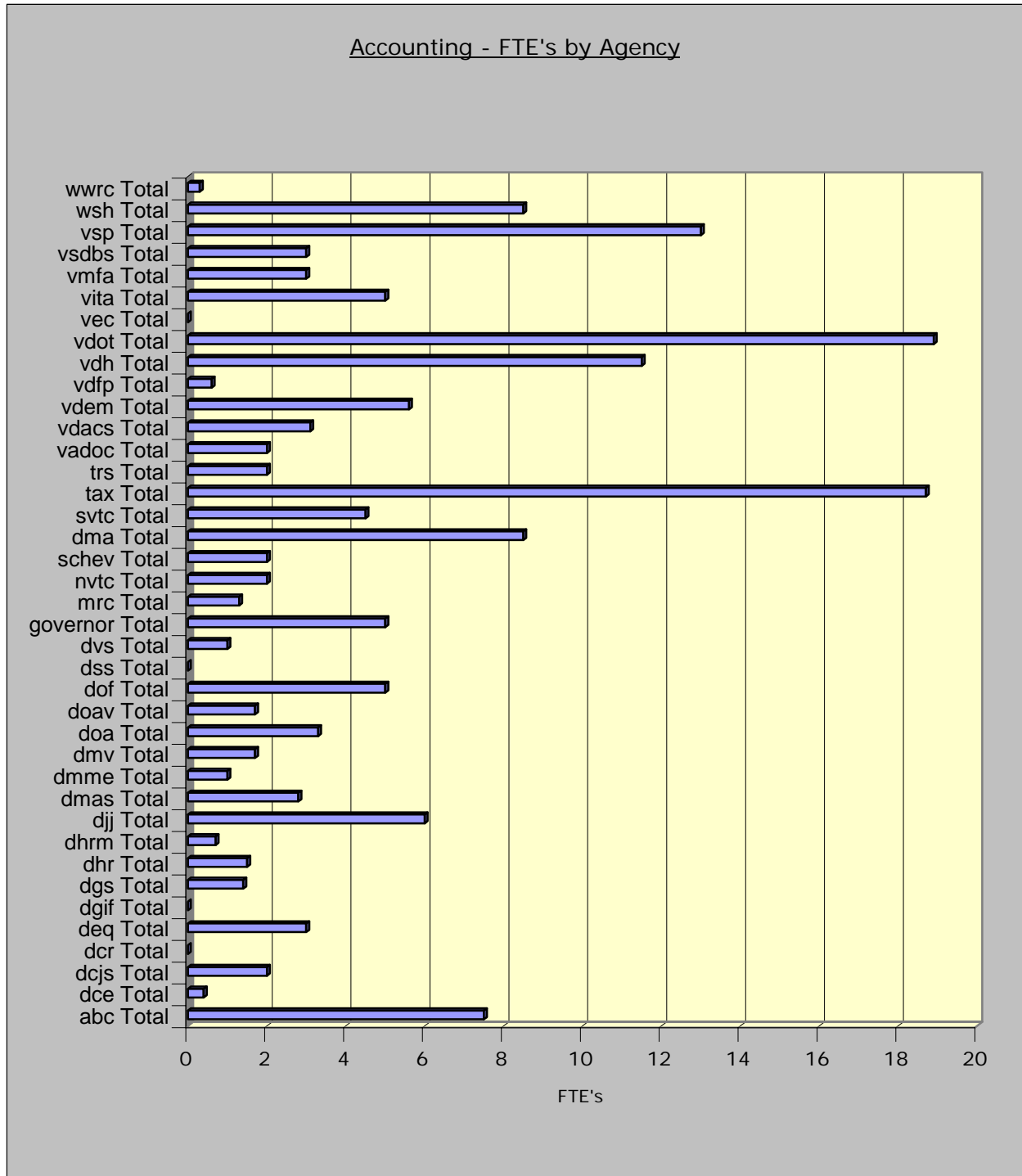
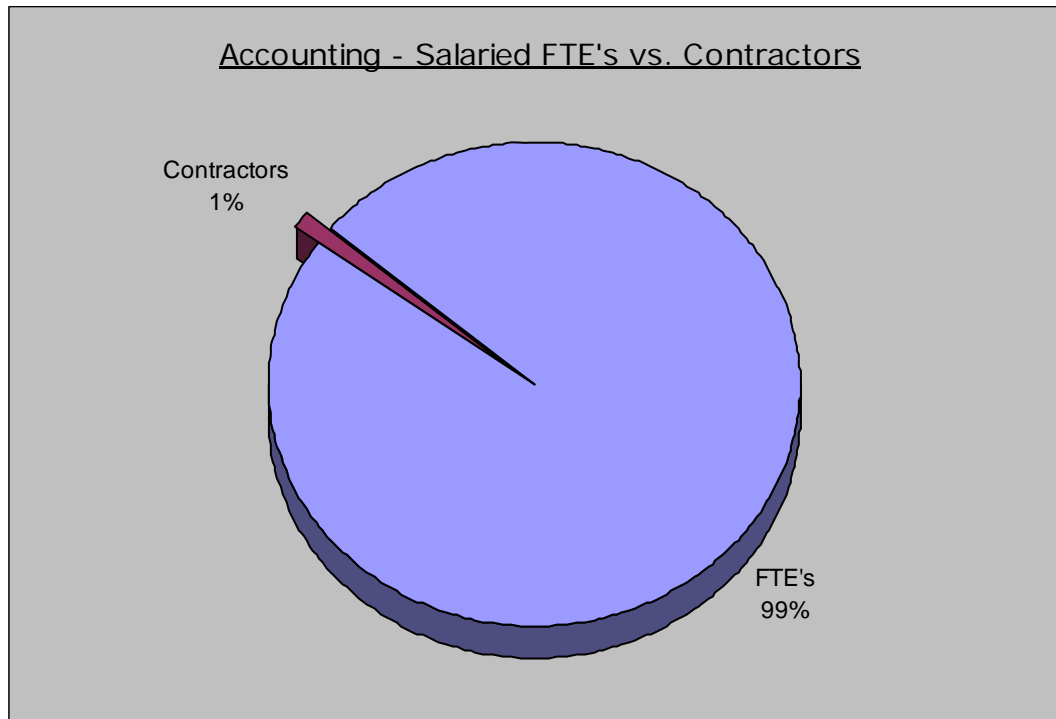
Exhibit 6 Distribution of Accounting Resources by Agency

Exhibit 7 Utilization of Contractor Resources in Accounting**Technology Resources**

Agencies have invested in an extremely large number of applications to support the Accounting function. These range from multi-million dollar, multi- function commercial packages to PC based applications developed and supported by individual agencies. These applications generally fall into the following categories. The survey results of the number of such systems are also shown.

- Multi-Functional mainframe or server based systems – 16
- Single Function mainframe or server based systems – 46
- PC based systems – 28

It is possible that more systems exist in the agencies that were not surveyed.

To-Be Preliminary Assessment**Commonwealth Recommendations**

Commonwealth staff made many summary and detailed suggestions for improving the Accounting function. These can generally be grouped into the following categories:

- **A much higher level of integration** – within accounting; with other functions such as budget and procurement; and even with certain agency specific processes.

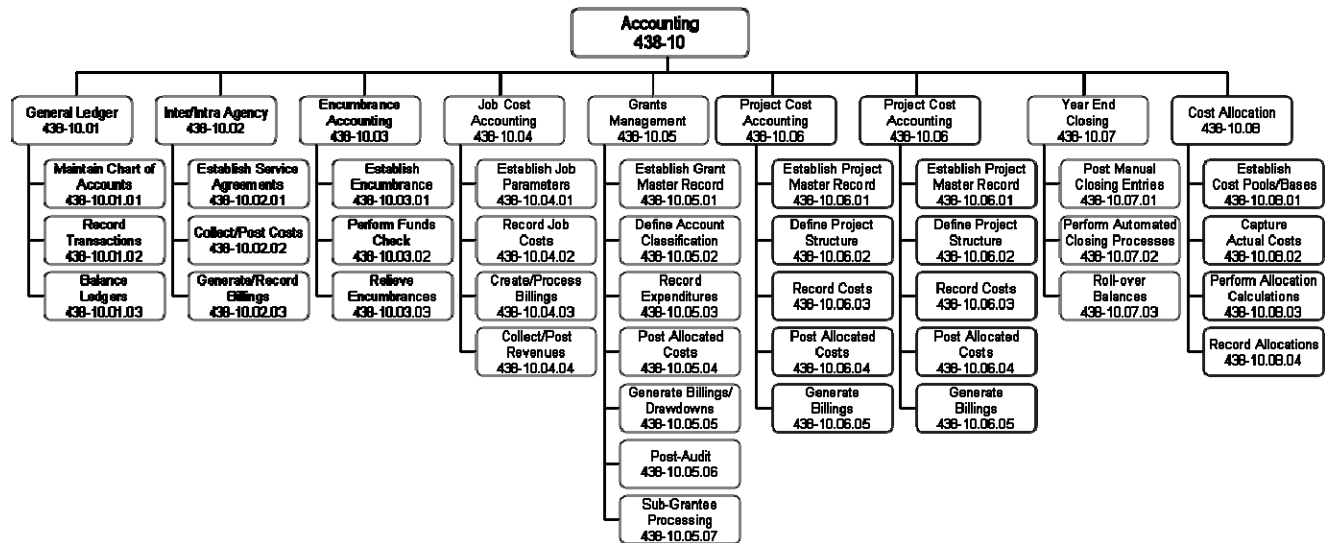
- **Enhanced reporting capabilities** – better tools; easier access; flexible and multiple media; merge with agency program data, etc.
- **Modern technology** – online; web-based; easy-to-use; embedded workflow; relational database; integrated data retrieval; ongoing support and maintenance.
- **Comprehensive range of functional capabilities** – with particular emphasis on cost accounting; cost allocation; and grant and project accounting.
- **Expanded and flexible account classification structure** – which permits accounting and reporting along dimensions defined by programs, sponsors, and internal management.
- **Sensitivity to, and need to provide for agency-specific accounting requirements** – particularly in meeting Federal mandates and the business operations of Internal Service and Enterprise Fund activities.
- **Support for full accrual accounting** – as demanded to comply with GASB 34 for external reporting and to support the basic missions of enterprise or internal service fund activities.

Consistency with Best Practices

All of the above are consistent with industry trends and best practices. In particular, the theme of business process integration, which recurs throughout the survey data, reflects an imperative that state and local government has inherited from the private sector over the past five to ten years. Business process integration is about elimination of redundancies and manual effort, and establishing seamless flows of information for decision makers. With the increasing pervasiveness of enterprise applications in both private and public organizations, the stakeholders of government have come to expect no less.

Business Process Decomposition

The Accounting process is composed of the following subprocesses that are generally performed by agencies of the Commonwealth

Exhibit 8 Business Function Decomposition**Survey Results**

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.

Asset and Liability Management (438.20)

Asset and liability management is the process that provides accounting support for the management of assets and liabilities of the state government.

Asset and liability management by the Commonwealth of Virginia is composed of a set of loosely associated financial processes. These processes vary in the degree of centralization, and are integrated only at the highest level—the chart of accounts in CARS.

Assets and liabilities represent balance sheet items, as opposed to income statement items, on the financial statements of the Commonwealth. Assets represent property held by the Commonwealth or claims on property, including, for example, cash, inventories, and fixed assets (property, plant, and equipment). Liabilities represent financial claims against the Commonwealth; examples of these include short and long term debt. Other financial sub-processes create assets and liabilities – accounts receivable, for example, belongs to the Collections and Accounts Receivable sub-process, and accounts payable belongs to the Payments sub-process. The asset and liability management subprocess serves as a miscellaneous or catch-all category that covers assets and liabilities not captured elsewhere in the financial business process decomposition. Asset and liability management includes the accurate and timely valuation and reporting of these balance sheet items.

Asset and liability management composes the following sub-processes:

- Petty Cash
- CMIA Compliance
- Inventory Accounting
- Fixed Assets (including Capital Lease accounting)
- Other Assets
- Other Liabilities

As-Is Environment: Strengths

Agencies generally express satisfaction with the effectiveness and efficiency of the asset and liability management sub-process and with the functionality of the supporting technologies. Particular strengths of asset and liability management are these:

- **Decentralized management.** Agencies like the decentralization of asset and liability management processes that provide them with the flexibility to tailor policies and practices to their specific missions. Smaller agencies with simple processes avoid the cost and complexity of standardized solutions.
- **Petty cash.** Within the general guidelines provided in the CAPP manual, agencies can create local policies and procedures for petty cash to manage particular business-specific risks.
- **Fixed assets.** The new web-based FAACS system is regarded as user friendly.

As-Is Environment: Weaknesses

While the agencies generally regard their asset and liability management processes as satisfactory, their outlook is very narrowly focused on the objectives of their agency specific missions and programs, rather than on best business practices from the enterprise perspective. For example, one agency identified the use of employees' social security numbers to track assigned inventory in a local application as a strength of its inventory management process. The weaknesses of the Commonwealth's asset and liability management processes relate to a lack of enterprise standards and process integration. Asset and liability management in the Commonwealth has particular weaknesses in the following areas:

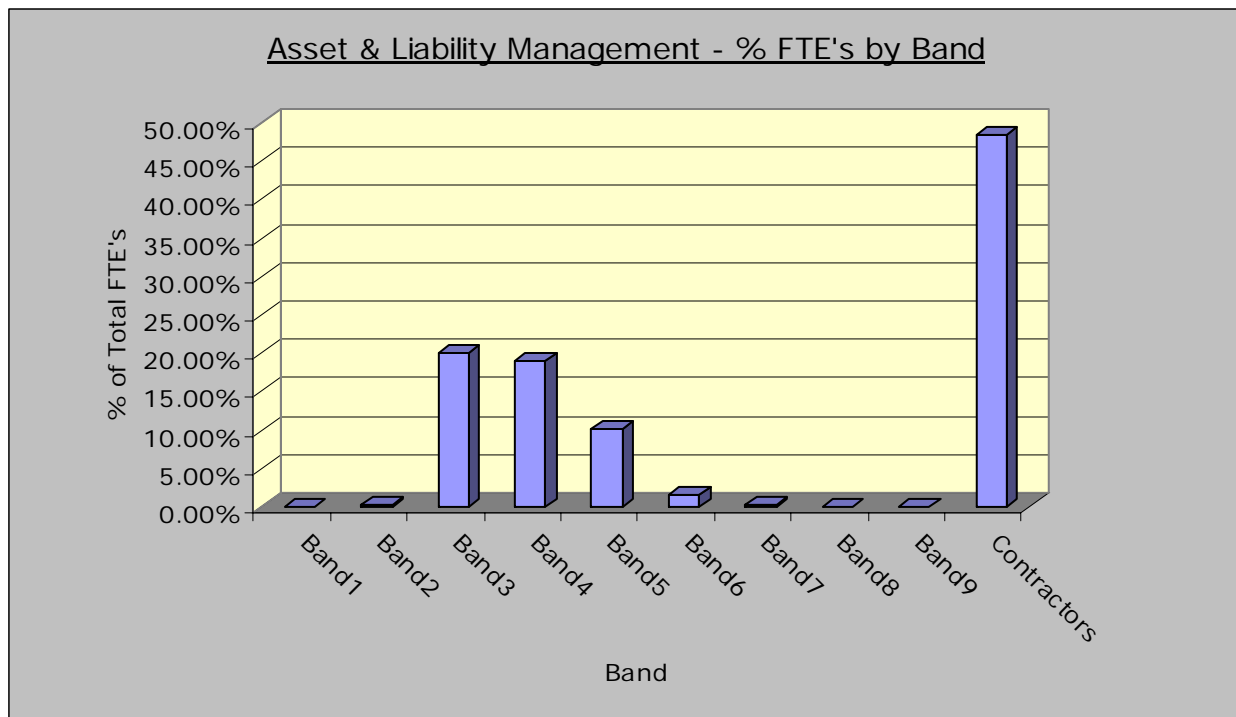
- **Knowledge transfer.** There is no provision or incentive for sharing of expertise, leading business practices, or applications across agencies
- **Varying levels of application support.** Lack of central applications and support leaves smaller and mid-sized agencies either without functionality or struggling to provide it for themselves
- **Use of petty cash to react to payroll shortfalls.** Use of petty cash to make up payroll shortfalls signifies upstream defects in the time reporting and/or payroll processes.
- **CMIA compliance.** Batch processing in CARS currently splits the posting of expenditures and revenues, which causes artificial timing differences in reporting. The CMIA compliance process is labor intensive due to limited systems functionality.
- **Inventory accounting.** Inventory management is largely manually performed. There is limited use of bar coding and scanning technologies
- **Fixed assets.** Various systems are used to track fixed assets. These systems are not well integrated. There are also differences in policy among various agencies. Agencies are using fixed asset systems to solve other business issues such as tracing the custodianship of personally-assigned equipment.
 - Lack of integration between FAACS (financial asset management) and CARS (enterprise financial reporting)
 - Lack of integration between FAACS and LAS (lease accounting)
 - Users regard LAS as an unfriendly system
 - Manual effort in managing capital leases because LAS does not support agency specific requirements
 - Lack of support in FAACS for federal reporting for grants
 - Lack of query capability in FAACS
 - No standard process or system to handle requirements of property control
 - Use of FAACS for purposes other than financial asset management, such as property control and grant reporting
 - Capitalization policies differ among agencies
 - Lack of integration with the procurement process causes capital expenditures to be erroneously expensed
- **Other liabilities.** Since CARS supports the cash basis of accounting, accruals for the full and modified basis of accounting have to be prepared manually

As-Is Environment: Resources Required

Human Resources

The amount of labor effort (full time equivalents or FTEs) devoted to the asset and liability management process is generally small, no more than 2-3 FTEs for most agencies. However, the efficiency of those resources from the enterprise perspective is questionable, given the diversity and disconnectedness of the sub-processes, the lack of Commonwealth-wide standards, and the multiplicity of systems in use.

Exhibit 9 *Asset and Liability Management Human Resources*



Personnel supporting these functions are highly dispersed throughout the Commonwealth's agencies. A large number of FTEs are contractors. However, this reflects VDOT's intensive use of contractors to perform administration functions, rather than reflecting a broad trend among agencies.

Exhibit 10 Distribution of Asset and Liability Management Resources by Agency

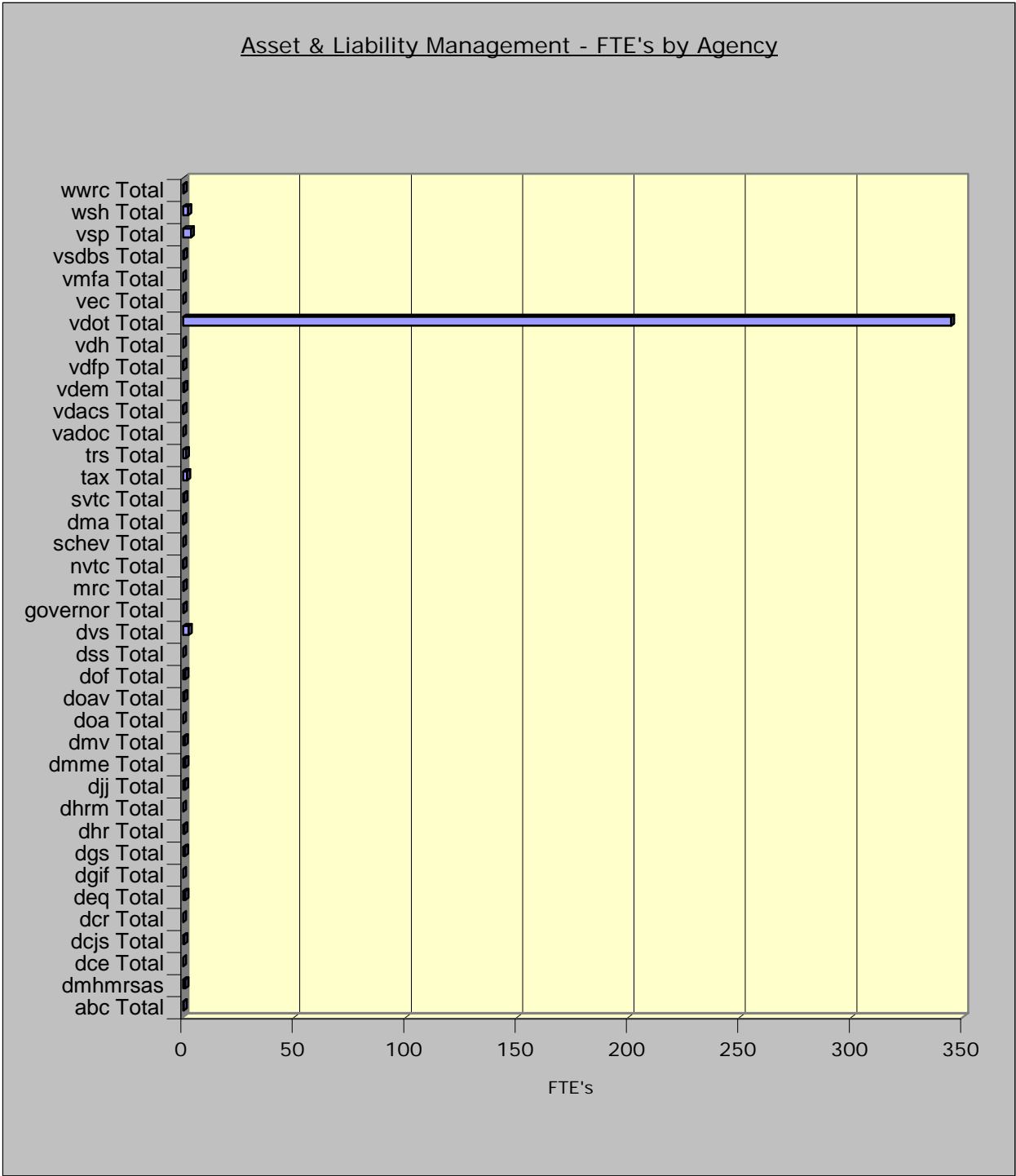
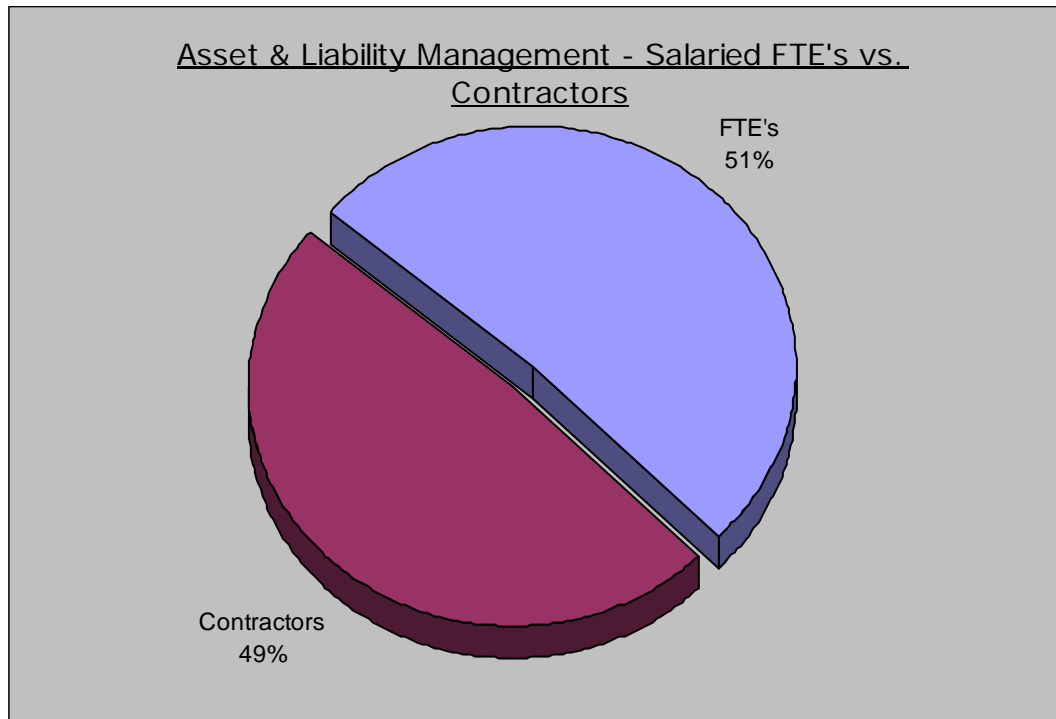


Exhibit 11 Utilization of Contractors in Assets and Liabilities Management

Technology Resources

The Commonwealth uses numerous systems and applications to support the asset and liability management process. Some of these existing systems could be considered enterprise applications. CARS is the Commonwealth's financial backbone; many agencies are direct users of CARS, while the others, for the most part those with ERP systems, have interfaces to CARS. The FAACS system supports financial reporting for fixed assets, while LAS (Lease Accounting System) provides functionality for the evaluation and management of capital leases. Those agencies that have the fixed asset and capital lease sub-processes are generally users of FAACS and LAS—although even those agencies that are direct users of CARS, FAACS, and/or LAS do not necessarily have their needs fully met by those systems. In those cases, the agencies have supplemental, free-standing applications to provide the necessary functionality, or, in many cases, the business processes are managed with substantial manual intervention.

As might be expected for a diverse group of subprocesses, asset and liability management involves a large variety of systems and applications at the agency level. In effect, these are “point” solutions under agency control, with varying degrees of automation, sophistication, and effectiveness. Among the other systems and applications supporting the asset and liability management process at the agencies are shown in Exhibit 12.

Exhibit 12 Asset and Liability Management Supporting Systems

- | | |
|---|--|
| ▪ Oracle | ▪ Fixed Asset Inventory and Reporting System |
| ▪ PeopleSoft | ▪ Business Manager |
| ▪ Syteline | ▪ Fuel Tank meters |
| ▪ FINSYS | ▪ ReserveAmerica |
| ▪ Mitchell Humphrey FMS II | ▪ WebIMS |
| ▪ Peachtree | ▪ Automated Fuel Management System |
| ▪ Excel | ▪ Equipment Management System |
| ▪ Access | ▪ FME |
| ▪ Quicken | ▪ WMS-21 |
| ▪ QuickBooks | ▪ The Retailer POS |
| ▪ PRISM | ▪ VDH FandA System |
| ▪ Point of Sale System | ▪ CRX |
| ▪ Supply/Equipment System | ▪ VISION |
| ▪ Product and Warehouse Management System | ▪ CSCNet |
| ▪ CORE Enforcement System | ▪ MAPPER |
| ▪ STARS | |
| ▪ Automated Perpetual Inventory System | |
-

To-Be Preliminary Assessment

Commonwealth Recommendations

The Due Diligence survey for the Asset and Liability Management process indicates the following points for process improvement:

- **Petty cash**
 - Introduce greater automation of the process, e.g., check printing
 - Increase dollar limits for use of petty cash
 - Provide more petty cash accounts per agency so that accounts are aligned with agency programs
 - Maintain a statewide banking relationship that would provide each agency with a subsidiary bank account, eliminating the need for each agency to have a separate bank account
- **CMIA compliance**
 - The system should support the distinction between business days and calendar days in calculation of drawdown and interest
- **Inventory accounting**
 - Integrate and automate financial postings for inventory by exploiting bar coding technology more comprehensively

- Provide automated update of inventory accounting from the e-Procurement solution (eVA) to eliminate redundant effort
- Integrate the entire procurement-to-payment business process flow in real time
- Exempt purchases for resale from requirements of eVA and SWAM because vendors resist participating
- **Fixed assets**
 - Integrate the Commonwealth-wide Fixed Asset system with the Commonwealth-wide General Ledger system
 - Integrate the Commonwealth-wide Fixed Asset system with agency applications in order to automate depreciation entries
 - Combine the Commonwealth-wide Fixed Asset and Capital Lease applications, and integrate both with the e-Procurement solution (eVA) to obtain the following improvements:
 - Improve functionality for capital lease accounting, e.g. physical location and serial number tracking, to eliminate redundant agency applications
 - Bring a user friendly web interface to capital lease accounting
 - Eliminate paper submissions for capital leases
 - Reduce occurrence of unrecorded or inaccurately valued assets
 - Provide flexible, user friendly reporting and ad hoc query capability for fixed assets. For example, improve the sort capability (alphabetic, lease number)
 - Increase the capitalization limit for capital leases

Consistency with Best Practices

User demand for improved functionality, greater automation, higher disbursement limits, more accounts, faster cycle time, etc. with Petty Cash may signal underlying defects in other business processes such as Procurement and Payroll. While many agencies, especially those with highly decentralized processes and/or extensive field organization, will have occasional need to make emergency payments, routine usage of Petty Cash may be symptomatic of a breakdown in planning functions, internal control weaknesses, or lack of compliance with enterprise policies. Petty Cash disbursements should be analyzed on a sample basis to identify potential business process improvements.

The Petty Cash process can be thought of as a “workaround” solution that is necessary to expedite disbursements in situations where the source business process is not sufficiently responsive. As with workarounds in general, there is business risk in providing a solution that is so agreeable to the user that it is perpetuated indefinitely and the exceptional situation becomes the norm.

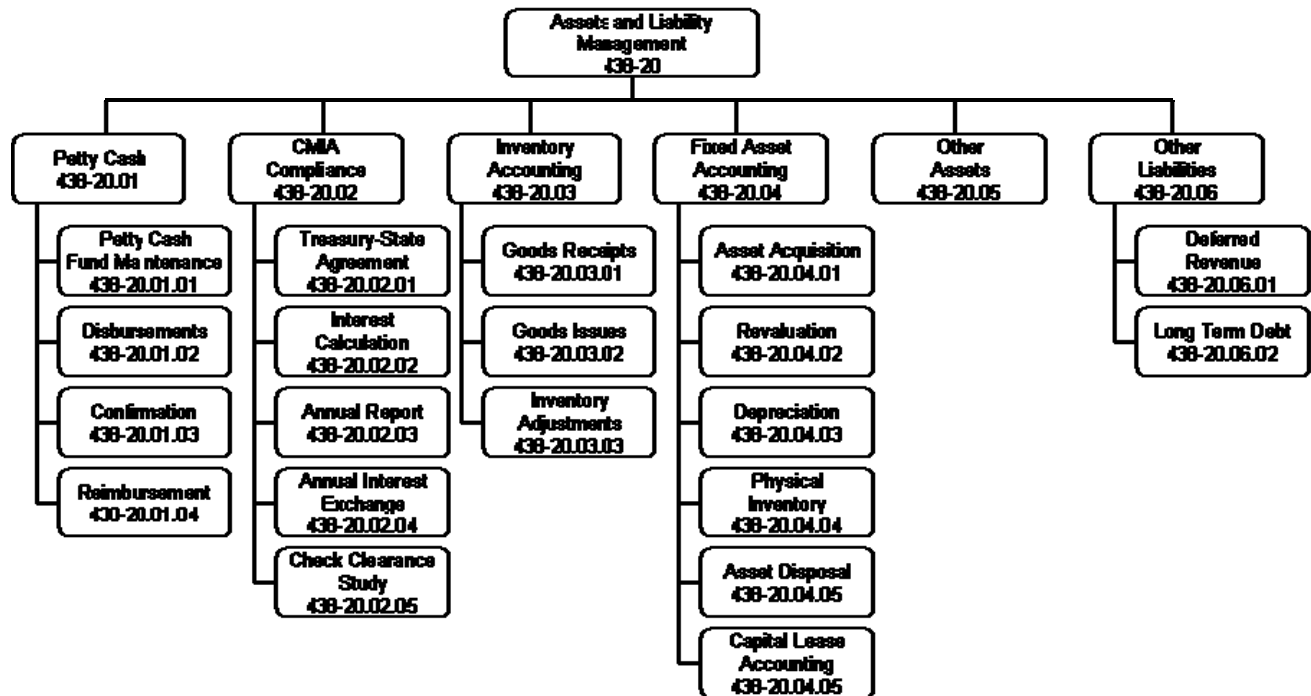
The suggested points for improvement generally revolve around major themes such as business process integration and state-of-the-art reporting tools. In addition, users frequently requested that browser-based interfaces be provided for all applications. These themes are not only consistent with best business practices, but are also among the identified objectives of other statewide enterprise application initiatives that are underway in large states such as Pennsylvania and North Carolina.

A few of the suggestions for improvement are not necessarily consistent with best business practices, but should be evaluated in terms of Commonwealth policy. These include the suggestion that certain kinds of purchases for resale be exempt from eVA and SWAM requirements as well as the suggestion to increase in the capitalization limit for capital leases.

Business Process Decomposition

The Assets and Liabilities Management process is composed of the following subprocesses as depicted in Exhibit 13 below. These processes are universally performed by agencies of the Commonwealth

Exhibit 13 Business Function Decomposition



Survey Results

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.

Budget and Financial Management (438.30)

Budget and Finance involves the management of the state budget process including the development of plans and program, budget, and performance outputs and outcomes as well as financing state programs and operations through appropriation and apportionment of direct and reimbursable spending authority, fund transfers, investment and other financing mechanisms.

The Budget Formulation Process at the Commonwealth is currently undergoing significant change. Under the guidance of the General Assembly and the Governor, a new process of setting goals and aligning long-term objectives into the biennial budget process has been designed by the Council of Virginia's Future. Starting with the FY2006 – 2008 biennium, the Department of Planning and Budget has initiated a budget formulation process that integrates the following components:

- Strategic Plans
- Service Area Plans
- Performance Measures
- Performance-Based Budgeting

As-Is Environment: Strengths

- **WebBears.** WebBears the Budget Entry and Reporting System is web-based, easy to use and efficient for capturing agency budget submissions.
- **Base budget development process.** The process of developing a base and technical adjustments is respected by agency personnel. The Technical Adjustment Process takes into consideration the primary requirements of capturing one-time events, continuations, mandates, and legislatively authorized adjustments.
- **Decision packages.** The methodology for requesting adjustments to funding and positions for agencies based upon justified program requirements. Decision packages provide a structured approach for agencies to communicate changes in requirements for program resources.
- **FATS.** The Form 27 Automated Transaction System provides the on-line tools required by Agencies to submit appropriation transfers and adjustments.

As-Is Environment: Weaknesses

Although the budgeting process is changing, traditional tools and processes from the existing budgetary process will continue to be used within the Commonwealth. Many of these processes and their supporting technology were consistently identified by survey respondents as weaknesses. Budget and financial management in the Commonwealth has particular weaknesses in the following areas:

- **Position budgeting.** The Commonwealth uses a series of disparate approaches and systems for projecting personnel costs. Every agency applies their own methodology and tools to calculating labor costs. Vacant and new positions are calculated with different assumptions throughout the Commonwealth..

- **System integration.** Inadequate interfaces to state accounting systems (CARS), personnel and budgetary systems.
- **Strategic plan integration.** No automated processes exist to connect strategic planning, performance measurement, performance budgeting.
- **“What-if” analysis and forecasting.** The only practical way of conducting “what-if” is through traditional spreadsheet tools. Budgetary systems do not provide the tools to easily assemble data and analyze alternatives
- **Allocation of central appropriation adjustments.** The allocation process of central account buckets used for state-wide wage adjustments, fringe benefit changes and other programs is completed through local tools such as Microsoft Access and Excel at DPB. Once the central accounts have been spread to the agencies, agency staff need to allocate these additional resources to the appropriate cost centers. Agencies have no automated way to complete this final allocation step.
- **Time to complete process.** The time period to complete the budgetary process is inconsistent and changes from year to year. Agencies have raised some concern about the delivery timetables with additional requirements to provide service area plans.
- **Performance measures.** Performance measures have traditionally not aligned with the goals and objectives of the agencies.
- **Accounting and budgetary detail.** Central systems do not capture or support data requirements below the service area, program, and function. Agencies have a critical need to develop budgets, spending plans at lower level of detail. DPB also identified the advantage of capturing information at lower levels to support their analysis and planning requirements.

As-Is Environment: Resources Required

Human Resources

The number of people engaged in the budgeting process is small. They tend to be concentrated in the middle tiers of the Commonwealth’s salary structure. These resources are highly dispersed throughout the Commonwealth’s agencies. With the exception of VDOT, contractors play an insignificant role in this process. VDOT also reported that their headcounts for budgeting include project managers who have financial and budgetary responsibility for individual projects. This is contrary to most agencies, who we believe reported on the size of their central staff devoted to the budgeting process.

Exhibit 14 Budget Human Resources

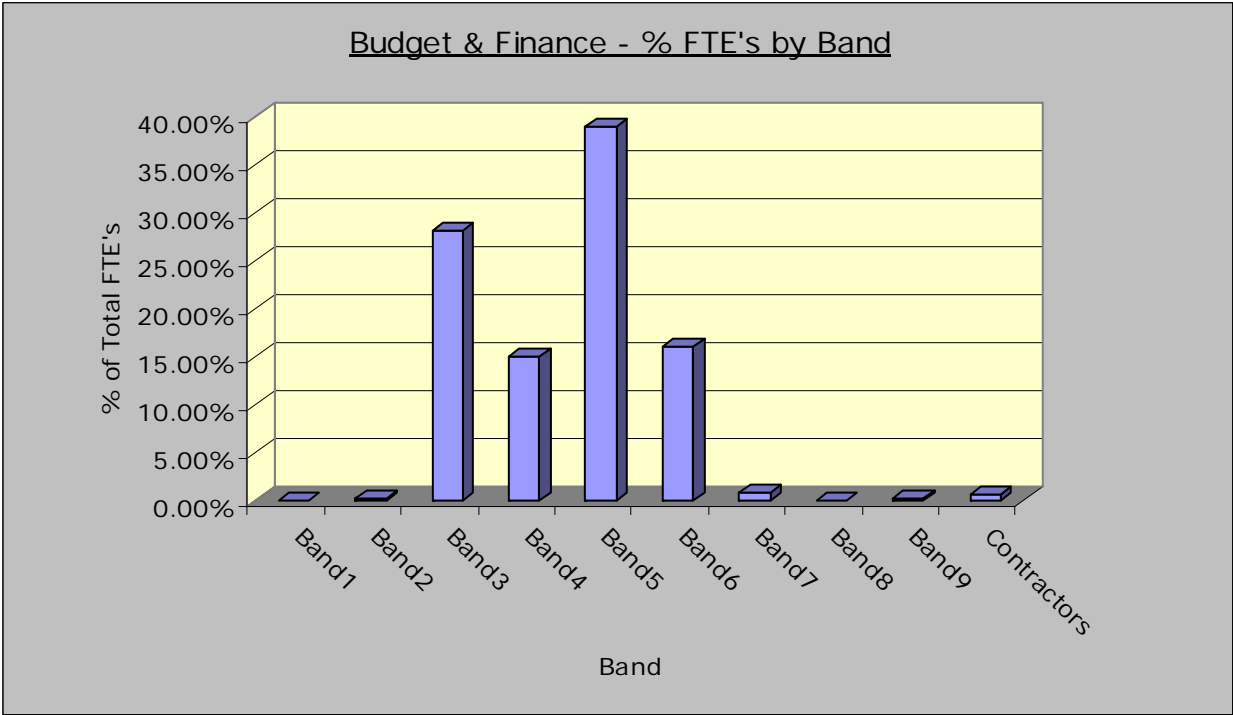


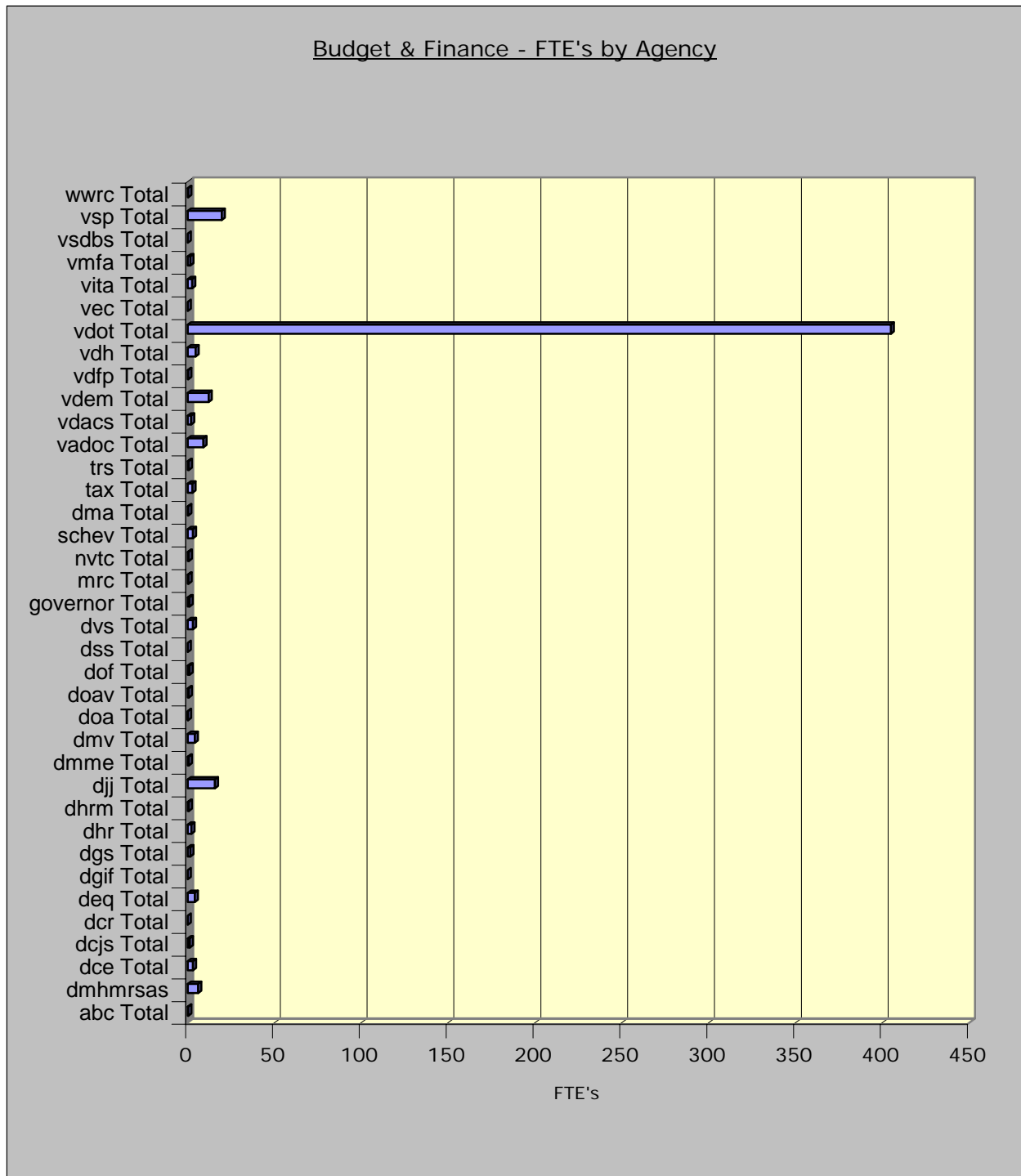
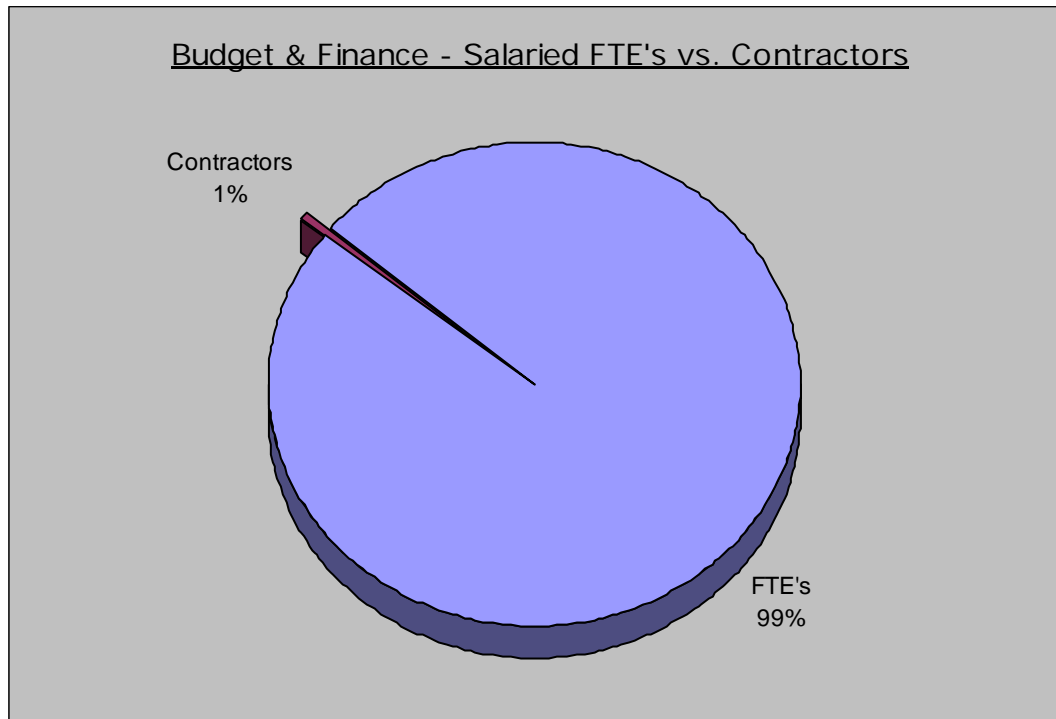
Exhibit 15 Distribution of Budget Resources by Agency

Exhibit 16 Utilization of Contractors in Budgeting**Technology Resources**

The Department of Planning and Budget maintains several systems to assemble and control appropriations. DPB maintains WebBears and FATS for internal and agency use. In addition to these central systems, many agencies maintain supplemental systems to develop and track budgets at the cost center level. Agencies currently use the following systems to support their activities:

- ERP Systems (Peoplesoft, Oracle)
- Mapper
- Excel

To-Be Preliminary Assessment**Commonwealth Recommendations**

- **Improve system integration.** Integration with central accounting and financial systems, HR, payroll and agencies systems was consistently identified as desirable future state. Current systems do not share data, reporting is across silos. Common usage of data requires programming or re-keying of data.
- **Support what-if analysis.** Provide a system that enhances alternative and what-if analysis. Permit analysts to view and store alternatives.

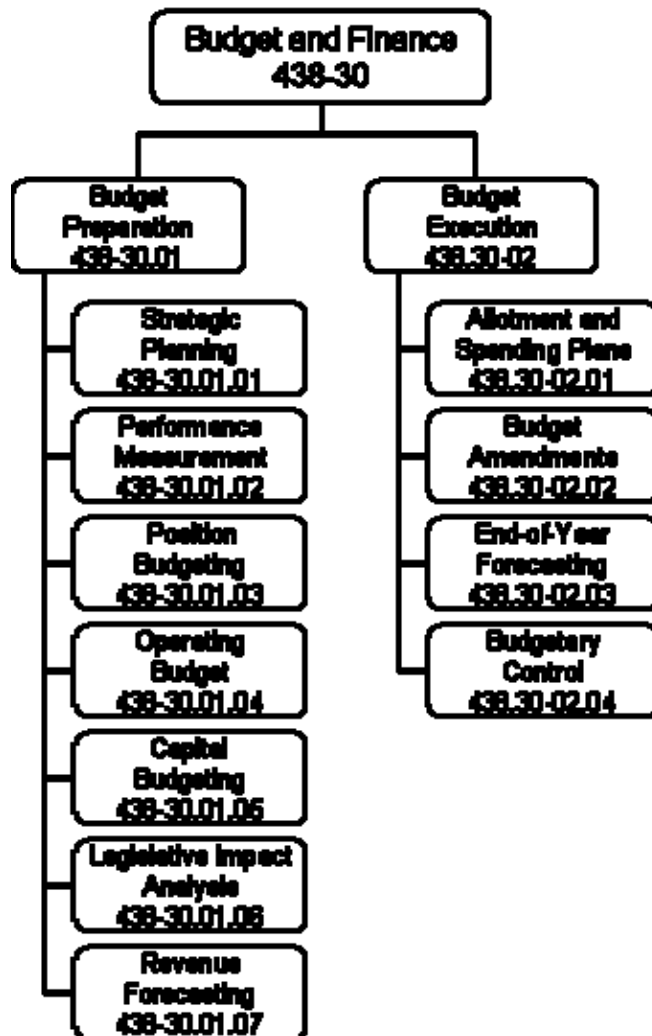
- **Support grant fiscal years** – Provide solutions that will support and recognize budget and actual expenditures by grantor fiscal year.
- **Support detail budgeting** – Agencies require systems that will support budgeting at the cost center and fund level. System should support roll-ups at higher levels to meet DPB requirements.
- **Personnel forecasting** – Support budgeting at a position level. Provide what-if scenarios for changing salary, organizational structure, and benefit costs.
- **Project budgeting** – Support budgeting at the project level
- **Historical data** – Store enough historical data to support trend analysis and alternative scenarios.
- **Quarterly budget execution** – Support a process for analyzing expenditures on a quarterly basis.
- **Consolidated budget view** – Provide a system that supports the Strategic vision of the Commonwealth. System should support goals, objectives, key performance metrics, budget line items, and “what-if” modeling.

Consistency with Best Practices

All of the recommendations offered by Commonwealth personnel are consistent with state, locality, or other relevant public entity best practices

Business Process Decomposition

The Budgeting Process is composed of the following sub processes as depicted in Exhibit 17 below. These processes are universally performed by agencies of the Commonwealth.

Exhibit 17 Business Function Decomposition

Survey Results

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.

Collections and Receivables (438.40)

Revenue Collection includes the collection of government non-tax income from all sources. The Debt Collection Process includes the activities associated with the collection of money owed to the state government from both foreign and domestic sources. These include the collection of user fees charged for the provision of government services or for the use of government goods or resources (e.g., State Parks). This process also encompasses functions for managing deposits, fund transfers, and receipts for sales or services.

Collections and Receivables span the establishment, billing, and follow-up of a debt owed to the Commonwealth. Debts are collected, monies are posted to the delinquent account, and reporting to the Department of Accounts occurs. Steps within the collection process may include skip-tracing, referral for offset with TAX and/or the Comptroller, referral to the Office of the Attorney General, and referral to a private collection agency.

Commonwealth agencies appear to do a good job of sharing information throughout the collections process. However, there are differences in policies and procedures that create inefficiencies in accounts receivable management. Staffing shortages also contribute to decreased efficiencies, as caseloads and administrative expectations outweigh the human capital resources currently available.

As-Is Environment: Strengths

The process offers high accessibility for the citizenry and central tracking. Debt establishment is a decentralized process, consisting of many Commonwealth locations for many agencies. These multiple locations allows for multiple points of service for the citizenry.

The billing and collection process is a central process with the exception of the Department of Social Services. Overall, the centralization of the billing process allows for higher efficiencies in accounts receivable tracking.

As-Is Environment: Weaknesses

The lack of a consistent mandated process leads to lower collections. The Commonwealth has a “suggested” delinquent collection process as outlined in the CAPP Manual authored by the Office of the Attorney General and the Department of Accounts, but no mandates. This leads to agencies utilizing varying sources for collection and skip-tracing. There is no identification and sharing of best practices, techniques, and tools, so the success of collections varies widely across agencies.

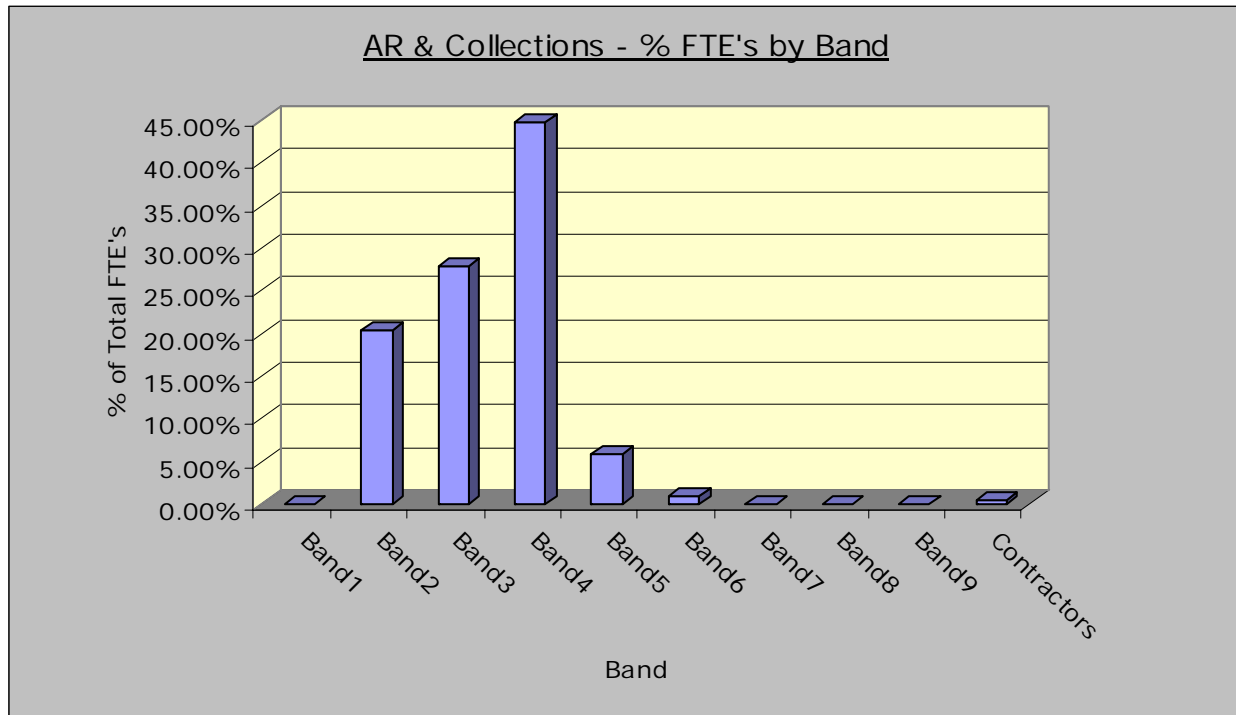
As-Is Environment: Resources Required

Human Resources

Each agency expressed concerns about staffing levels and the performance of collection activity. DMAS was especially vocal about the need for more staff to perform audits and collections. The majority of the agencies considered to have an active collections process have anywhere from 12 to 50 FTEs to perform all activities associated with collections. DSS has over 390 field officers

dispersed statewide to conduct collection activity but has a collections caseload in excess of 363,000 cases.

Exhibit 18 *Accounts Receivable and Collections Resources*



In our foundation interviews, each agency reported an inadequate number of FTEs dedicated to the billing and collection process. DSS, at first glance, has a rather large number of FTEs, however, these are employees dispersed throughout the Commonwealth attempting to locate and collect from delinquent parents who owe child support. Exhibit 19 below summarizes the distribution of these collections resources among the agencies we surveyed during the due diligence process. As noted in Exhibit 20, contractors play an insignificant role in this process.

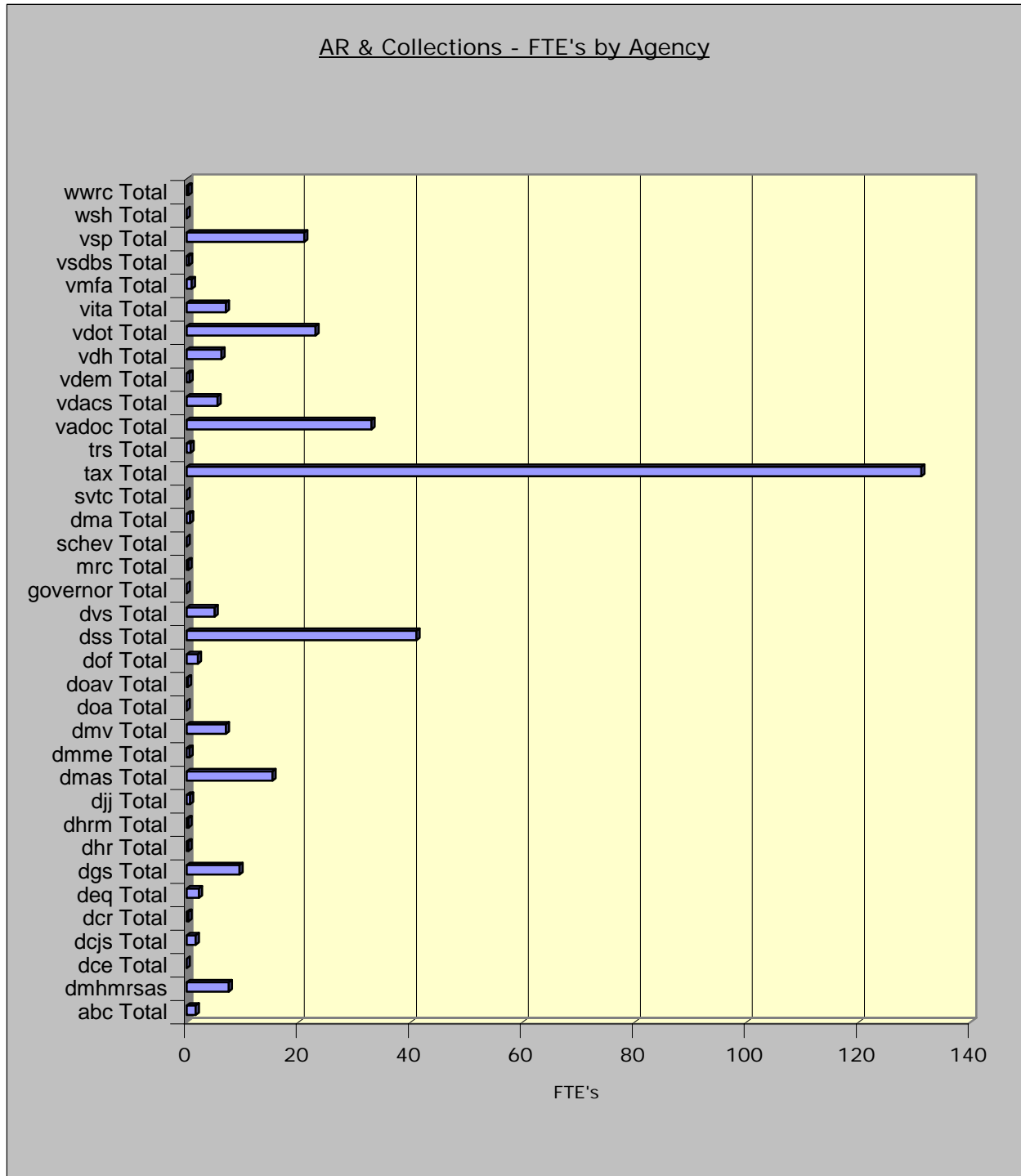
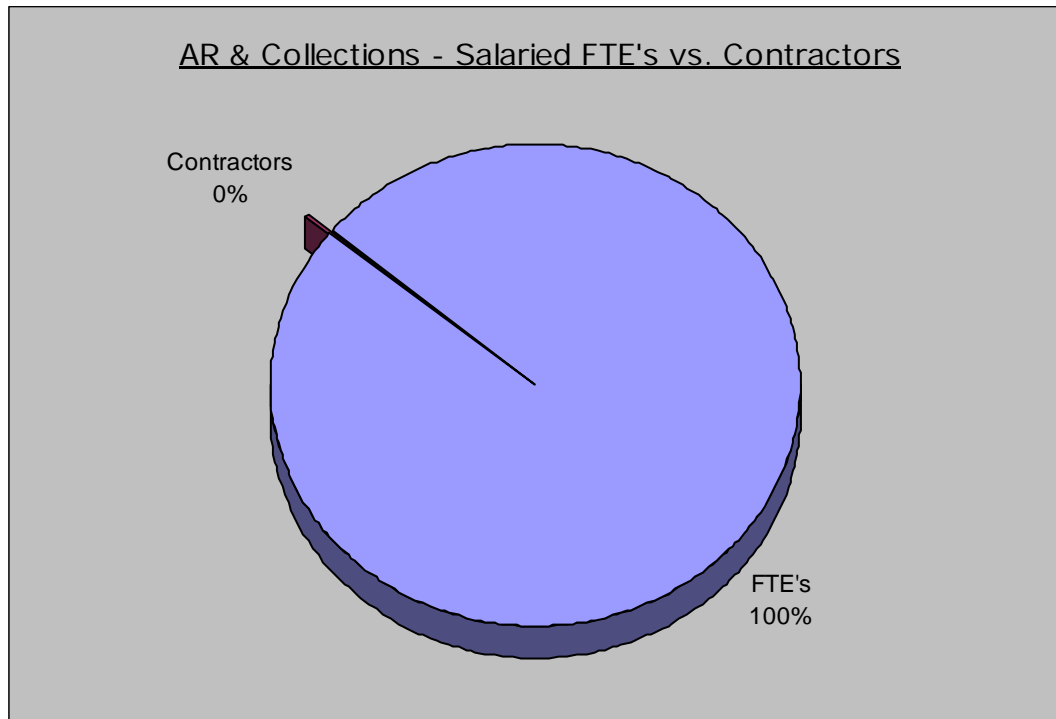
Exhibit 19 Distribution of Accounts Receivable and Collections Resources by Agency

Exhibit 20 Utilization of Contractors in Accounts Receivable and Collections

Technology Resources

Agencies have invested in a variety of applications to track and manage receivables. These applications range from sophisticated agency-level systems to locally maintained spreadsheets and small databases. Here is a partial list of applications used throughout the Commonwealth:

- FMS II
- IRMS
- AVATAR
- AFS
- Peachtree

Many of the receivable management systems within the Commonwealth are obsolete or do not interface efficiently with one another. In some cases, agencies are even relying upon old unsupported application and database releases.

Accessing data for reporting and analysis is very difficult for quite a few agencies.

To-Be Preliminary Assessment

Overall, there is a need to create a standardized and evolving delinquent process, which continually identifies best practices, techniques, and tools. Through this action will develop a

more efficient and effective approach, the secondary effect of which will be more productive information sharing.

Commonwealth Recommendations

Based upon our foundation interviews and the survey responses the following staff recommendations were noted:

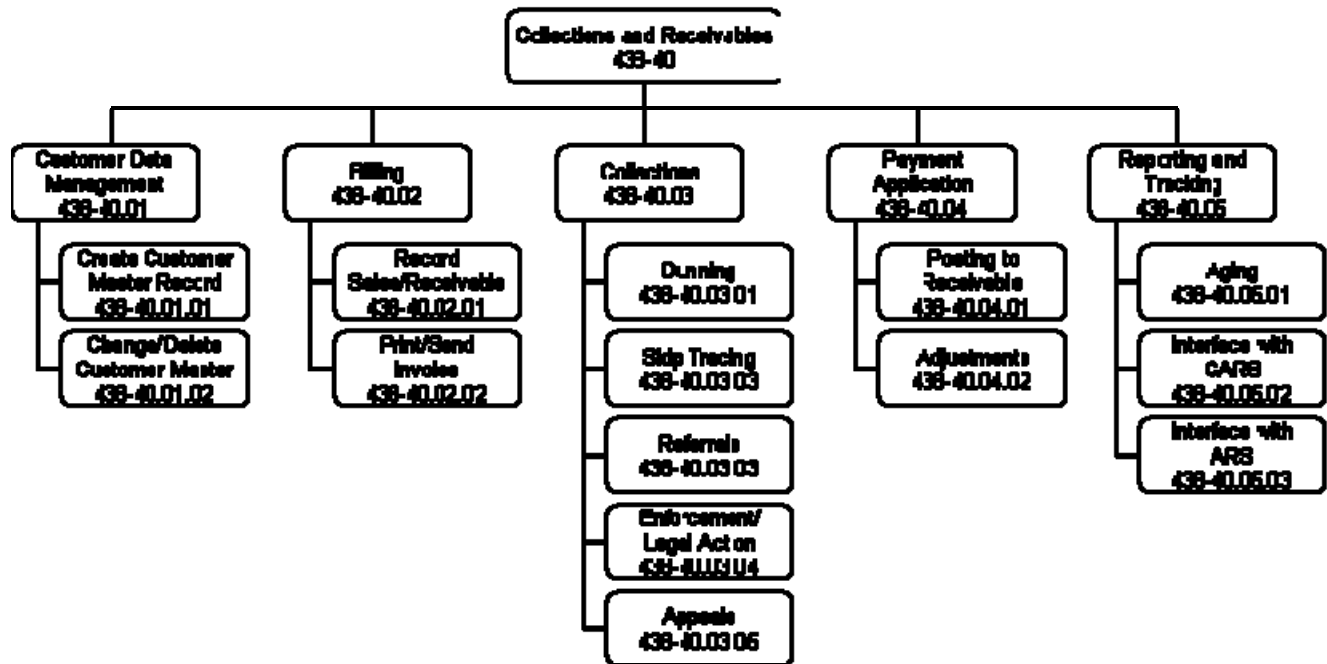
- Increased staffing
- More training
- Better system integration
- Updated hardware
- Better reporting and tracking capability
- Centralization of certain functions such as TANF administration within the Department of Social Services

Consistency with Best Practices

All of the above are very consistent with industry trends and best practices.

Business Process Decomposition

The Accounts Receivable and Collections Process is composed of the following sub processes as depicted in Exhibit 21 below.

Exhibit 21 Business Function Decomposition

Survey Results

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.

Payments (438.50)

The payment activity includes disbursements of state funds via a variety of mechanisms to private individuals, state agencies, local governments, and the private sector to pay for goods and services, or to distribute entitlements, benefits, grants, subsidies, loans, or claims.

This analysis of the Commonwealth's payment function focuses on the payment for goods and services. These payments are governed by the Prompt Payment Act, which, among other provisions, requires that payments be disbursed within 30 days of receiving a clean invoice.

The payment process for goods and services generally proceeds as follows: vendors submit invoice to agency; agency personnel match invoice with receiving report and purchase order; discrepancies are addressed; agency pre-audits payment request and forwards to Department of Accounts; DOA ensures that batches are in order and processes requests which result in an electronic payment being sent to the vendor or a paper check being cut and mailed to vendor. Electronic payments are handled through EDI, which expedites payments and allows for combining several payments into one disbursement to a vendor. The EDI process has greatly enhanced the efficiency of the Commonwealth's payment process.

According to State law, DOA is responsible for pre-audit of all payment vouchers. DOA has decentralized this responsibility to selected agencies, but retains oversight of the process. For some agencies, DOA has retained direct responsibility for the pre-audit function. The Auditor of Accounts reviews agency payments quarterly to assess compliance with the Prompt Payment Act.

As-Is Environment: Strengths

The payment process is an important part of the Commonwealth's financial management operation, which has been recognized as best in the nation. This function is generally considered to work well. The Commonwealth makes extensive use of EDI to transmit payments electronically. Particular strengths of the Payment function are these:

- All agencies surveyed are over 95 percent compliant with the Prompt Payment Act
- Special payments truly are the exception
- The error rate for payment vouchers submitted to the Department of Accounts is close to 1 percent
- The Commonwealth has an automated interagency transfer process for payments between agencies
- Agencies with their own commercial financial systems have automated interfaces to CARS
- State makes use of EDI process which pays vendors electronically. This process enables the payment of one disbursement based on several payment vouchers.
- The Commonwealth has made a P-card available to agencies for small purchases
- 63% of the agencies survey have an automated 1099 process

As-Is Environment: Weaknesses

Although the payment process works well, there are still opportunities for improvement in the following areas:

- For small agencies, the P-card process is cumbersome. Some find it difficult to track American Express expenditures.
- Vendor numbers are not consistent across the Commonwealth. Agencies with their own financial accounting systems create their own vendor numbers. This can result in redundant data entry at the agency level.
- Vendors will receive a separate check from every agency that it serves.
- The processing of recording of payments in two systems results in the need to reconcile the agency based financial system with CARS
- Vendors signing up for electronic payment varies greatly among the agencies ranging from 20 to 90 percent.
- The 1099 process is decentralized to the agencies. Each agency produces a 1099 for each of its vendors. The process is sometimes automated and sometimes manual.
- Commonwealth statutes do not provide for electronic signatures
- Most agencies surveyed (63%) do not have a process for reconciling 1099s with the Internal Revenue Service.
- Several agencies (30%) in the survey indicated that they use different information technology systems to process different types of payments.
- The process is delayed in some cases at the agency during the approval process and in the gathering of documents necessary to approve the payment.

As-Is Environment: Resources Required

The payments process requires staff to enter payment data into CARS or into the agency based financial accounting system, to obtain and match invoices, purchase orders, and receiving reports and to handle errors that arise in the process.

Human Resources

The number of people engaged in the payment process is small. They tend to be concentrated in the lower tiers of the Commonwealth's salary structure as depicted in Exhibit 22. These resources are dispersed throughout the Commonwealth's agencies.

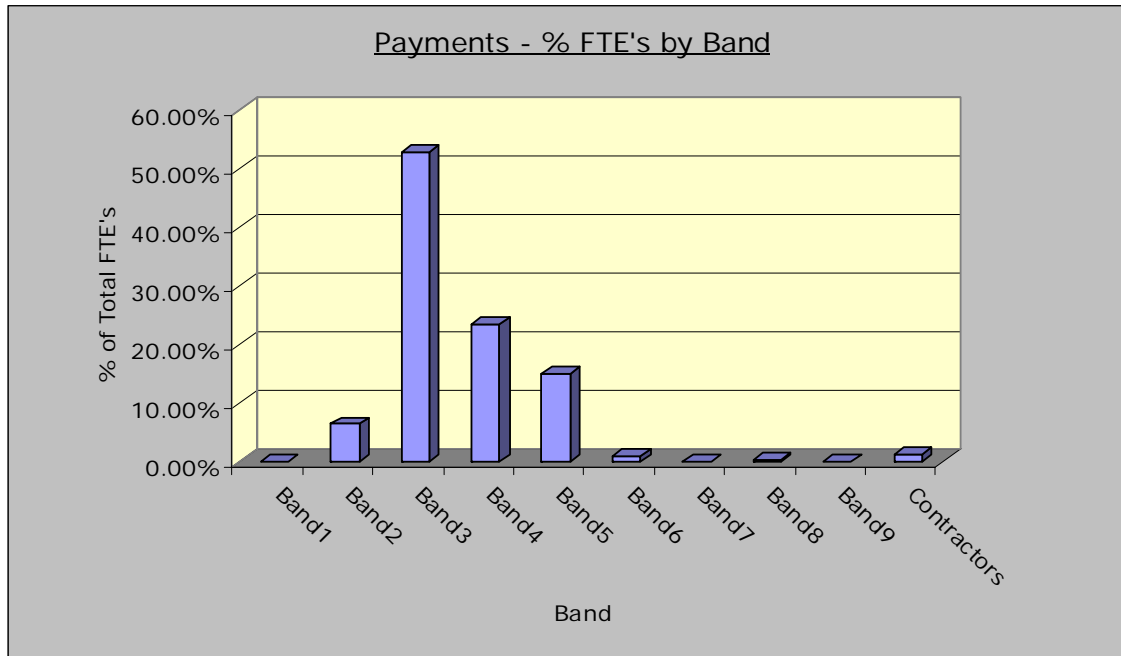
Exhibit 22 Payments Resources

Exhibit 23 summarizes the distribution of payment staff resources by agency. With the exception of VDOT, the number of resources supporting this process in each agency is low. Contractors play an insignificant role in this process. Contractors play an insignificant role in this process, as noted in Exhibit 24.

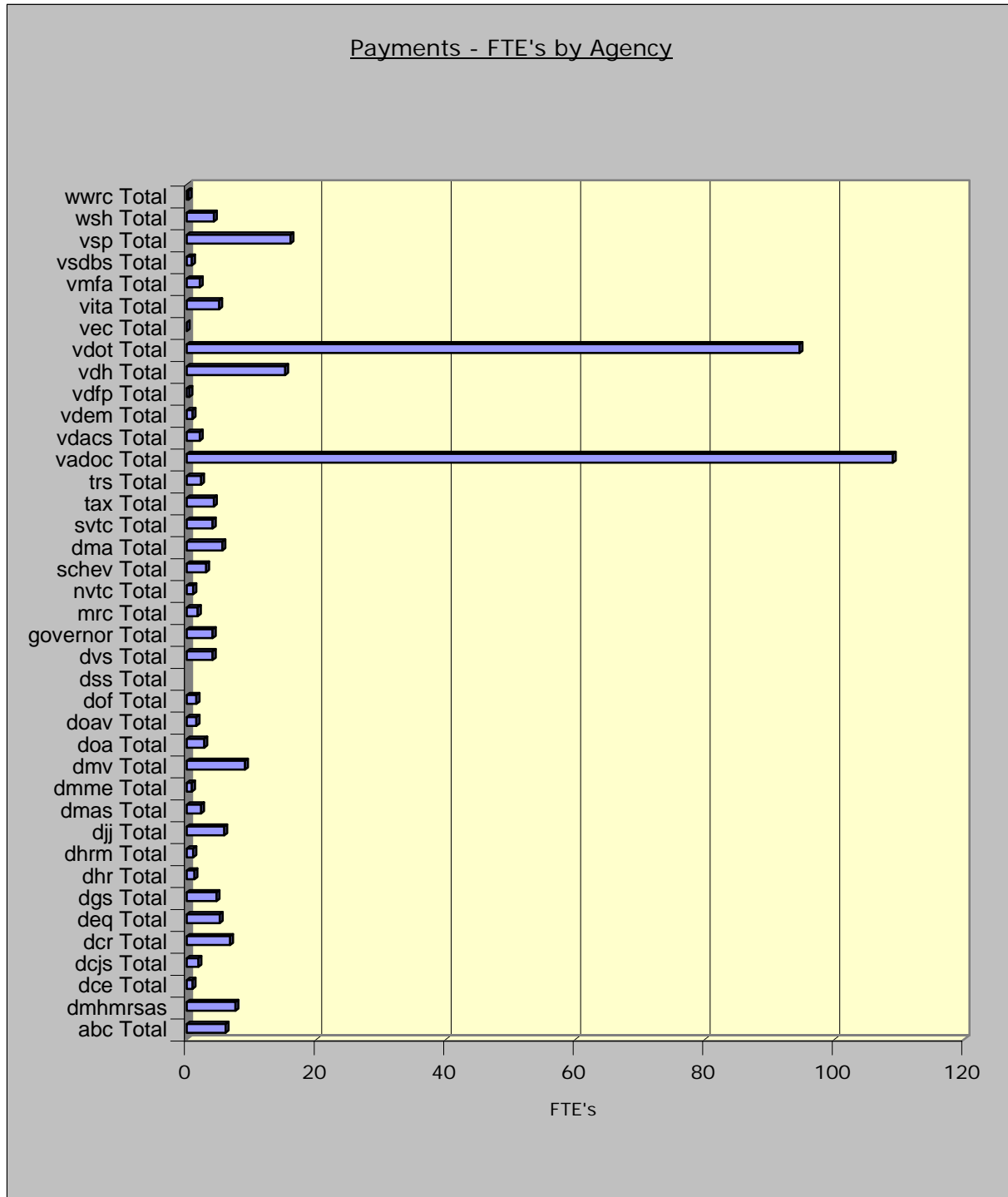
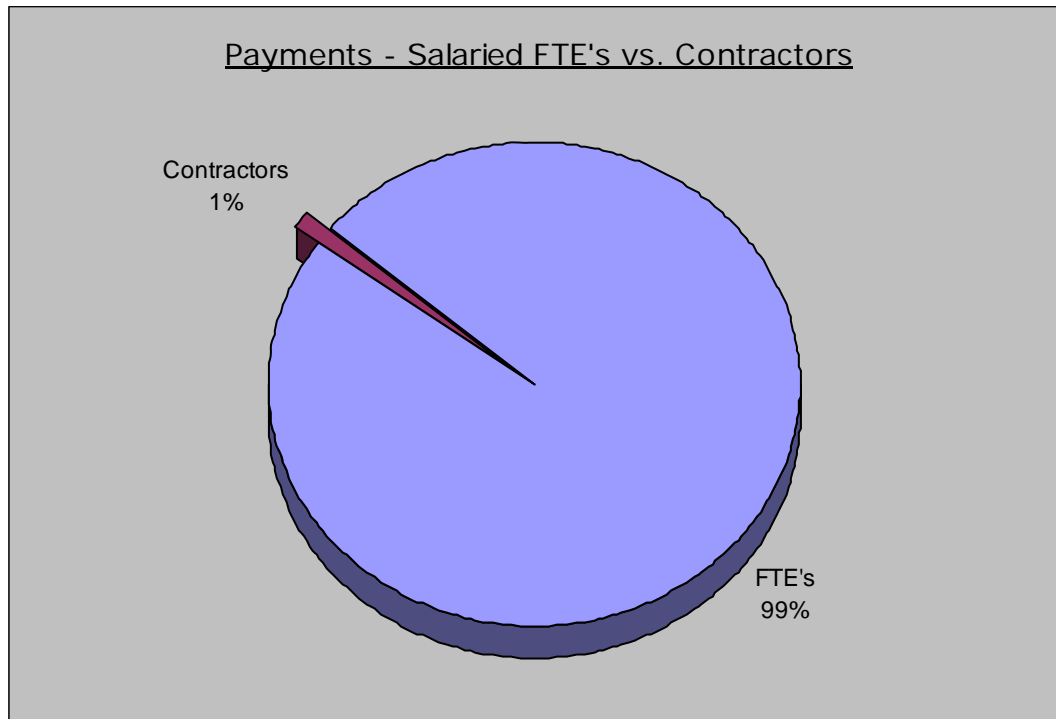
Exhibit 23 Distribution of Payments Resources by Agency

Exhibit 24 Contractor Utilization in Payments**Technology Resources**

The Commonwealth uses a variety of systems and applications to support the payment process. CARS supports all agencies by allowing agencies to input payment requests and by cutting checks. EDI handles electronic payments for all agencies that have vendors that participate in the electronic payment program.

In addition to the statewide technology support systems, agencies have either ERP systems that support the payment process (usually with an interface into CARS) or have stand-alone applications to support specialized payments. Of the 41 respondents to the Payments survey, 23 indicated that they operate their own financial system. Among the other systems/applications supporting the payment process at the agency levels are the following:

- Oracle
- PeopleSoft
- Quicken
- Finny
- VRIS
- VCPS-SSA
- Unclaimed Property System
- CIVITAS

- DMME ERP
- Benefits System (Labor)
- Trade system (Labor)
- LASER
- Federal Payments System
- APECS
- DMV Refund System

To-Be Preliminary Assessment

Commonwealth Recommendations

- **Enhance Interfaces/Integration**
 - Change the interface to CARS to be summary level only and let detail from FMS go to Treasury directly. This would eliminate some detailed reconciliation
 - Combine all payments across all agencies to each vendor to reduce the number of checks written and simplify the reconciliation process for the vendors
 - Integrate the procurement, ordering, receiving, and payment systems
- **Improve System functionality**
 - Implement a single vendor ID statewide
 - Provide an easier way to track vendor history
 - Provide drill down capabilities to look up payments made by object code, fund or cost code
 - Implement real-time processing instead of batch
 - Improve ad hoc reporting capabilities
 - Key on invoice number before payment is made, avoiding duplicate payments
 - Encumber purchase orders
 - Track invoices and travel reimbursement requests through the system from date received through date payment made
 - Increased visibility of vendor payments
 - Provide for Electronic invoice submission
 - Provide an easier method for recurring payments
 - Edit check for duplicate payments
 - Enable immediate payment to vendor (real-time) by EDI
 - Include an electronic image of the vendors invoice with the payment
 - Accept electronic invoices for payment
 - Increased flexibility for early release payments requested by vendors
- **Revise Policy**
 - Require vendors/employees to accept electronic payments
- **Training**

- Offer payment processing training

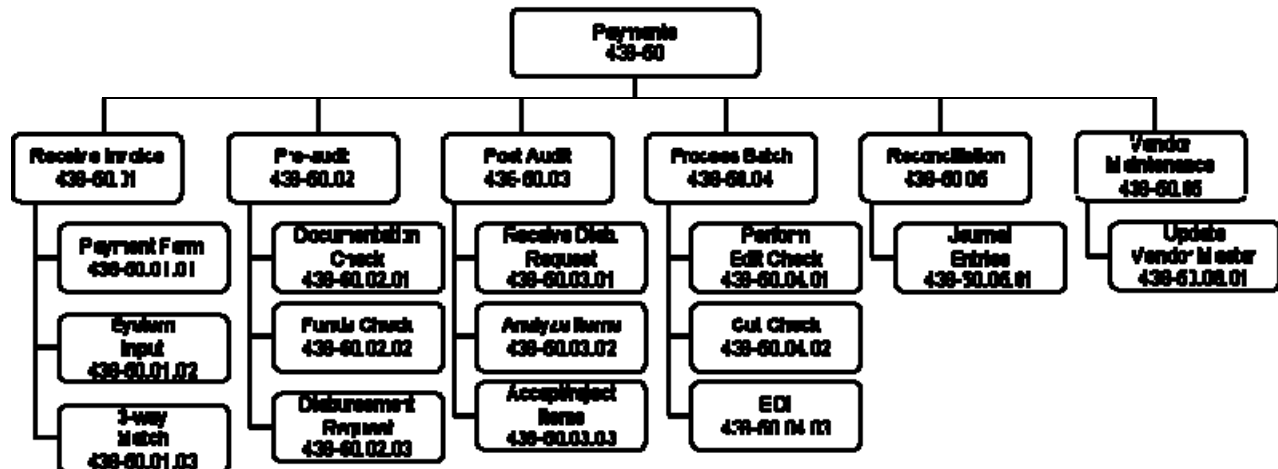
Consistency with Best Practices

Best practices for the payment process consist primarily of achieving accuracy and timeliness using a minimal number of resources. This can be accomplished by leveraging information technology to enter data only once, building business rules into the technology system that support the payment transaction, transmitting payments electronically, and communicating information about the transaction electronically to all of the relevant systems. The Commonwealth recommendations are generally consistent with best practices because they suggest more integration among systems. Integration allows for the elimination of redundant data entry, the coordination of information among systems, and the reduction of cycle times.

Business Process Decomposition

The Payments process is composed of the following subprocesses as depicted in Exhibit 25 below.

Exhibit 25 Business Function Decomposition



Survey Results

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.

Reporting and Information (438.60)

Reporting and Information includes providing financial information, reporting and analysis of financial transactions.

The reporting and information function occurs both at the central and agency level. The diverse nature of the agencies has resulted in a number of agency specific financial and reporting systems. The Commonwealth wide reporting requirements associated with the production of the CAFR requires significant time and effort from the agencies. At the central level, a number of reporting tools exist for the agencies to use.

As-Is Environment: Strengths

- **GFOA certificate.** Commonwealth receives the GFOA certificate each year. DOA has knowledgeable and helpful staff.
- **Security of data/internal controls.** The data is secure in the environment. There appears to be adequate internal controls.
- **Reportline used by some agencies.** Reporting capabilities within Reportline are used by some agencies. Relevant data is consistently presented. Minimizes the agencies need to “store” the reports data.
- **Automated interfaces to CARS.** Some agencies have an automated interface to CARS, making their reporting process more efficient than those agencies that need to hand enter their transactions into CARS.

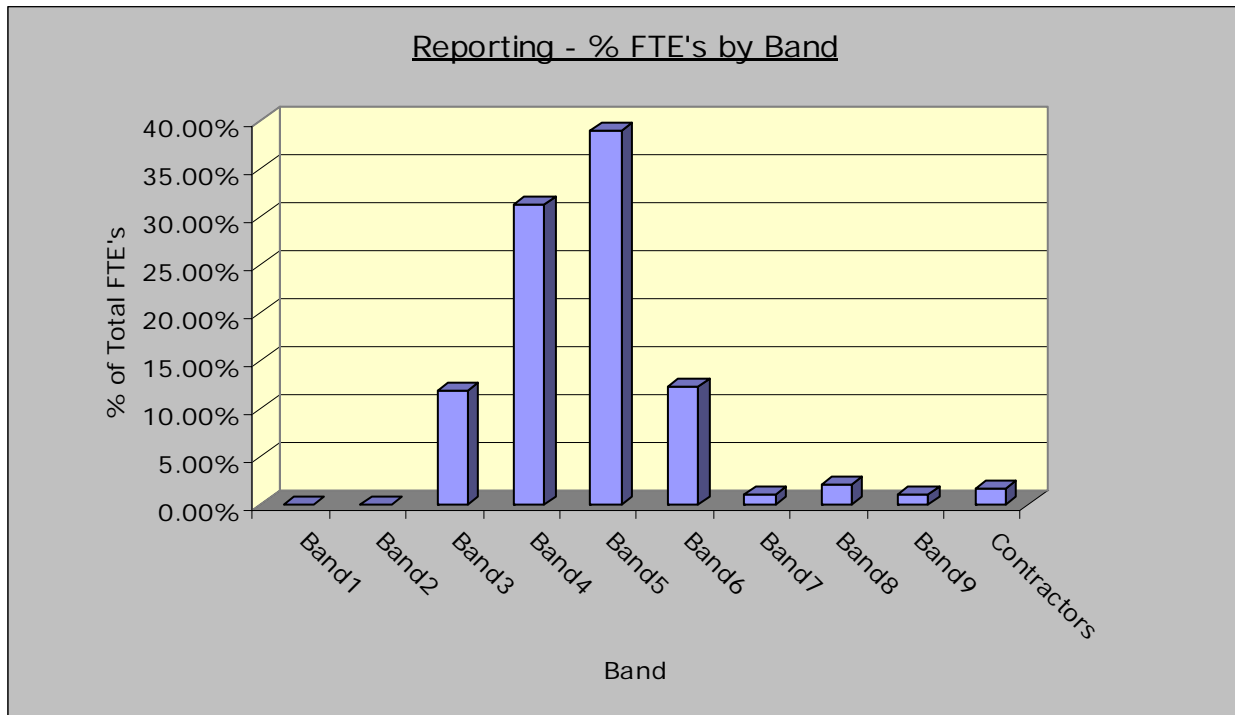
As-Is Environment: Weaknesses

- **CAFR reporting complex and time-consuming.** The attachments to the CAFR take a lot of time to prepare and are often too rigid to be easily adapted to unique agency specific data structures. Preparing accrual work papers using cash basis CARS reports is time consuming. The Commonwealth CAFR development process needs to incorporate encumbrance accounting and reporting.
- **Mission-specific reporting and information systems.** Agencies have evolved a variety of manual and automated processes for creating their reports. Some agencies have developed their own reporting systems to support their specific missions. Solutions range from agency-wide systems to locally maintained spreadsheets and databases. The incorporation of the mission specific processes and related data elements into CARS can be time consuming.

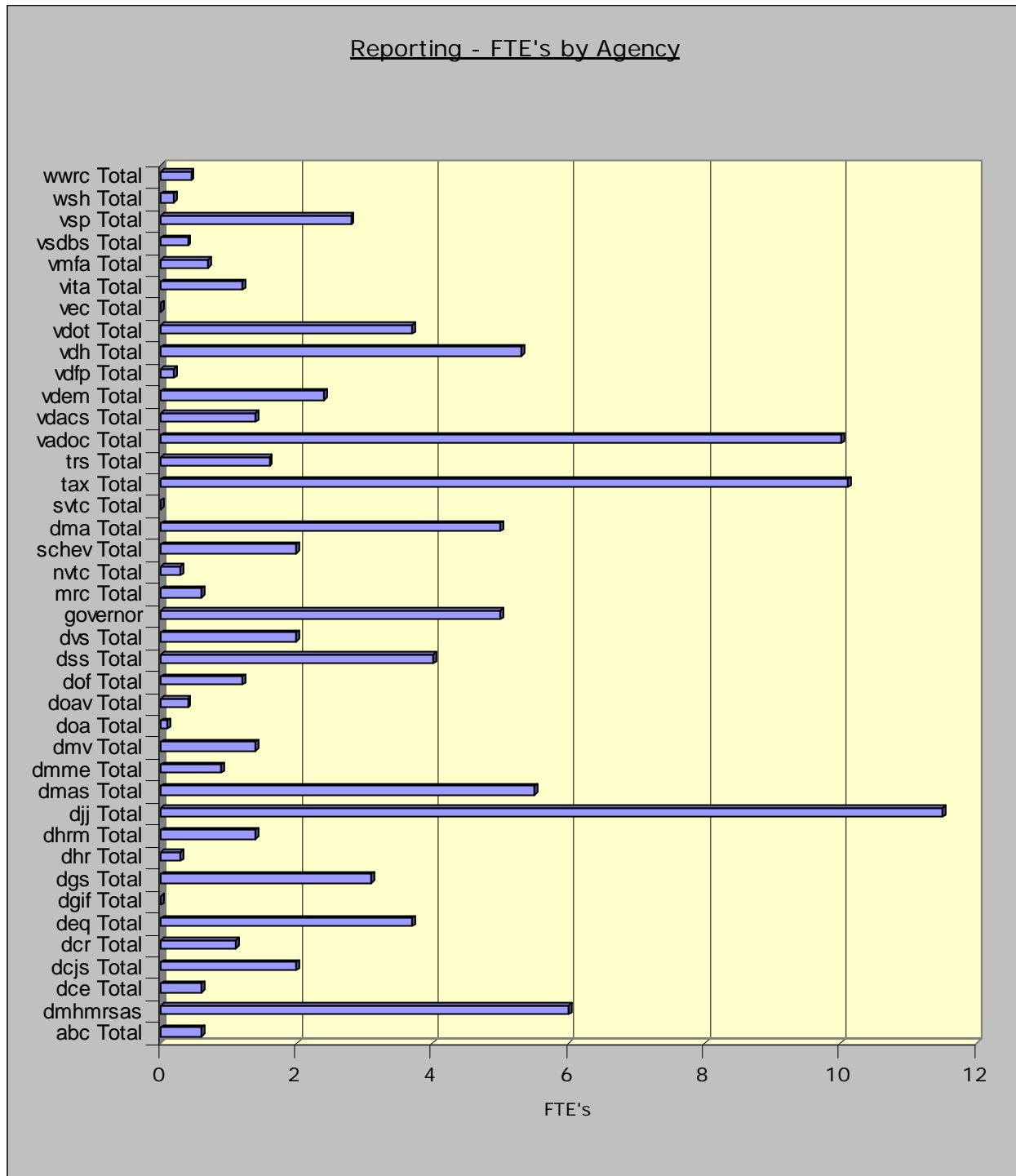
As-Is Environment: Resources Required

Human Resources

The majority of state employees engaged in the reporting and information function fall within the middle salary bands. The quantity of resources dedicated by each agency to this function is highly variable. This variability reflects the organizational structure (centralized vs. decentralized) and the agency’s specific mission. Exhibit 26 summarizes the resources supporting this process.

Exhibit 26 Reporting Resources

The number of resources dedicated to financial reporting is significant. Exhibit 27 below summarizes the distribution of these resources by agency.

Exhibit 27 Distribution of Reporting Resources by Agency

Technology Resources

Agencies have invested in a variety of financial systems and reporting systems to produce both standard reports for the agency and ad hoc reporting capabilities. These systems range from sophisticated agency-level systems to locally maintained spreadsheets and small databases. Here is a partial list of applications used for reporting throughout the Commonwealth:

- Aviation Accounting System (AAS)
- Oracle Financials (multiple agencies)
- PeopleSoft (multiple agencies)
- FMS
- STARS (State Tax Accounting and Revenue System expected Go Live August 2005)
- Syteline
- Access Databases
- Excel Spreadsheets

In some cases, accessing data for reporting and analysis is very difficult. Data may reside in a number of systems both centrally managed (CARS) and at the agency level.

To-Be Preliminary Assessment

Commonwealth Recommendations

- **CARS is obsolete.** CARS is obsolete and should be replaced with a fully functional web based system. A system that is more user friendly.
- **Nightly feeds into agency financial systems.** Build interfaces to feed detailed information back to Agency financial systems.
- **Increase capabilities of Reportline.**
 - Expand Reportline capabilities to include download to Excel function.
 - Add functionality to allow the user to use sort and filter data, flexibility of format.
 - Make prior year's data and project to date information available.
 - Allow for more print formatting capabilities.
 - Have a consistent date each month when these reports are available, currently the date can vary. Improve timeliness of reports.
 - Make details of financial activity available for a longer period of time.
 - Add local fund component to CARS (and to reports)
- **Improve Payables report.** Include Project code and CFDA number on Payables reports to help agencies identify payable for "Schedule of Retainage Payables."

Consistency with Best Practices

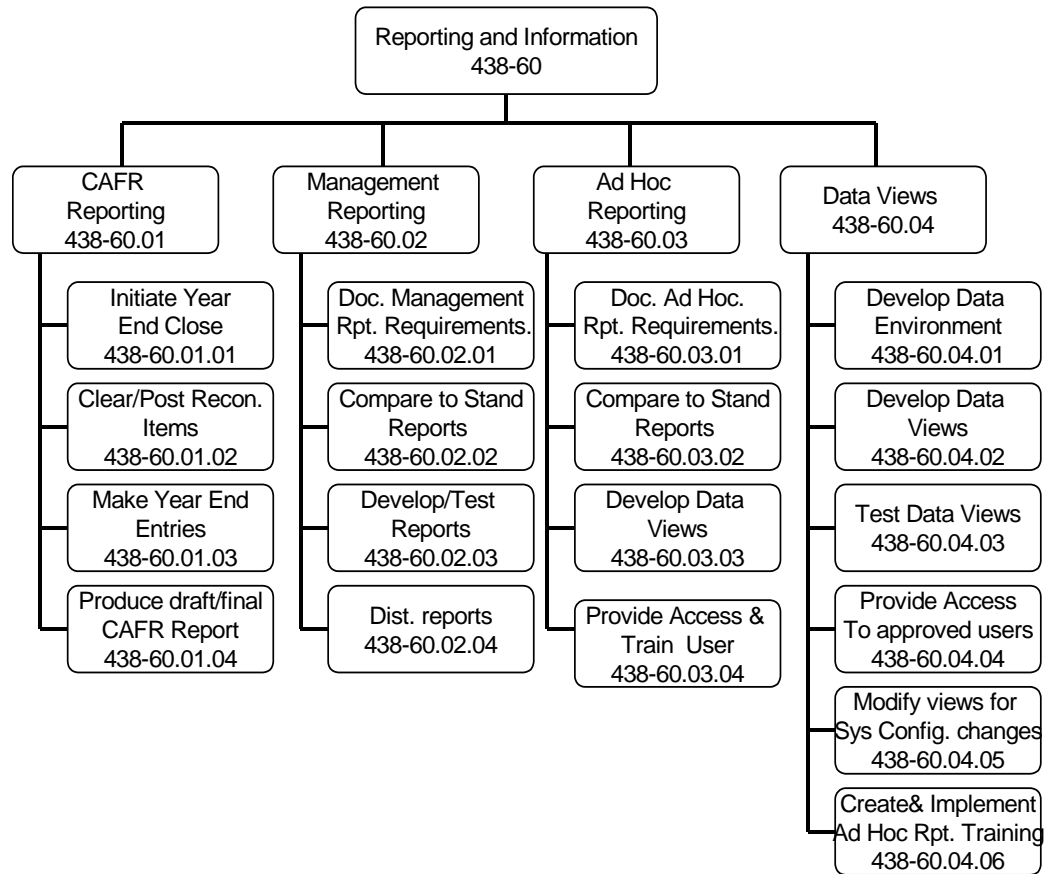
The Commonwealth recommendations for improving the reporting and information area are consistent with industry trends and best practices. The suggested points for improvement generally revolve around improving the existing reporting tools, a tactical solution. The strategic next step with these types of improvements is to embark upon a statewide enterprise reporting

initiative, which will allow real time updates of transactions in the variety of required reporting elements such as actual, budget, grants, and funds.

Business Process Decomposition

The Reporting Process is composed of the following sub processes as depicted in Exhibit 28 below.

Exhibit 28 Business Process Decomposition



Survey Results

Appendix B provides a set of two summary reports per business function studied in Financial Management. The first report shows response frequencies on questions selected to illustrate trends on particular management practices (these are multiple choice questions, so the results can be aggregated and graphed). The second report shows the set of responses on text questions, so that the range of views is reflected (these questions have responses easily displayed in a list format). The remaining survey questions are in a matrix format best understood in the individual survey response, so they are not included in the aggregate or grouped responses shown in these two reports. To view all responses to every question by survey, please view the reports included on the accompanying CD.